



**STABILIZATION AND ECONOMIC GROWTH  
WORKSHOP**

**Initial Draft Report**

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**and**

**U.S. Army Peacekeeping and Stability Operations Institute**

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## Introduction

On November 12, 2008, CNA, formerly known as the Center for Naval Analyses, and the U.S. Army Peacekeeping and Stability Operations Institute (PKSOI) hosted a workshop on stabilization and economic growth. The workshop was the third in a series of three workshops they sponsored. The events, held at the CNA Headquarters in Alexandria, Virginia, reflected the U.S. interagency approach to stability operations as defined in FM 3-07, the U.S. Army Field Manual on *Stability Operations* published in October 2008. FM 3-07 was drafted by U.S. Army personnel in collaboration with stakeholders representing U.S. civilian and military agencies, bilateral partners, and international organizations. This workshop on the economic elements and associated institutional underpinnings inherent in stability operations confirmed that “[t]he most effective long-term measure for conflict prevention and resolution is ... economic development.”<sup>1</sup>

FM 3-07 addressed many issues that must be resolved in conflict-affected countries to effect stabilization and economic growth. Many of these issues formed the basis of the discussion during the day-long workshop. Its four panels exchanged ideas on the macro-economic sustainment of transformation, the micro-economic sustainment of wealth creating societies, the governance and rule of law underpinnings thereof, and the challenge of illegal and illicit economies. A moderator conversant with these issues prefaced the presentations of the panelists: field practitioners, senior associates of think tanks, and prominent academics. The workshop surfaced macro- and micro-economic elements which, when associated with appropriate legal and political measures, help to curb illegal and illicit economic activity, the control of which facilitates the re-establishment of legitimate and effective national, regional, and local governments that foster the development of civil society and social reconciliation, an intrinsic end of stability operations.

The Honorable Franklin D. Kramer, Assistant Secretary of Defense for International Security Affairs from March 1996 to February 2001, made opening remarks synthesizing the major observations or conclusions of the preceding two workshops, the first being on security sector reform and the second on governance. Mr. Kramer then called on the moderator of the first panel to frame the context for the ensuing presentations and discussions.

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<sup>1</sup> FM 3-07, *Stability Operations* (Washington, DC, Department of the Army, 6 October 2008), p. 1-11.

The first panel focused on macro-economic sustainment of transformation. The two panelists, Dr. Jay Smith and Dr. Raymond Gilpin, described the macro-economic elements necessary for local and national economic recovery following substantial conflict. While there is debate about appropriate sequencing, most practitioners believe that donors' taking the initiative earlier than later is a required first step. Most of them also believe that reactivating economic growth in the immediate aftermath of violent conflict calls for action that clearly is not "development as usual." The policies or programs that may be effective or ineffective in a stable environment may have an opposite effect in a fragile environment.

Dr. Smith's presentation centered on USAID's *A Guide to Economic Growth in Post-Conflict Countries*. He and colleagues wrote the guide, he said, because most practitioners of development in conflict affected settings had been wrongfully pursuing development in such environments based on conventional wisdom. In countries emerging from violent conflict, the first priority should be getting people back to work quickly, creating jobs for the unemployed, even if they are "just jobs" that no one expects to be permanent. The initial reforms that should follow quickly—foremost among them being the reestablishment of basic economic governance functions—should aim to bring people into the market. Dr. Smith concluded his presentation noting that the practitioners who understand the relationship between stabilization and economic growth know they have to work on multiple fronts simultaneously to put a damaged economy on sound footing.

Dr. Gilpin pursued this theme by saying that the challenges of conflict-sensitive growth involve transformation, not simply transition from conflict to peace. To kick-start such growth, practitioners need to open or clear up the market environment in a complex political economy. They need to focus on the actors, institutions, and activities that condition this economy. Since the environments of conflict affected countries are a potpourri of fragility, coordinating effective action among and between foreign donors, the conflict affected government ministries, and members of the civil society within these countries is very difficult. The distributive impact of such action, as it affects all stakeholders in the countries suffering from conflict, must always be borne in mind.

The discussion that followed Dr. Smith's and Dr. Gilpin's presentations was lively. Setting the macro-economy right calls for flexibility and adaptation. Solutions cannot simply be imposed by outsiders. Local investors need to be engaged in reconstruction. They know the risks, the needs of the populace, and the capacity of the economy to absorb technology. Moreover, local investors work well in unregulated environments. Education and training is important, as is leadership.

The second panel picked up the thread by focusing on micro-economic sustainment of wealth-creating societies. They noted that a healthy micro-economic environment is

crucial to nation building in the wake of substantial conflict. Practitioners need to quickly restore pre-conflict livelihoods and expand the local economy to consolidate a fragile peace.

Dr. Phillip Steffen, the moderator of the second panel, said we practitioners need to know where we are, the nature of the conflict, and whether we are leading or supporting U.S. military forces in an effort to stabilize and reactivate the economy of the country in conflict. Security is the *sine qua non*, without which all development efforts are apt to be feckless. Likewise, local perceptions, whether of the populace in need or of people with influence, matter.

Ms. Blum drew on CHF International's experience in Haiti to make several points. She said practitioners need to be clear about their objectives. They also must consider the implications of the short- and long-term time-lines in programming. During the year immediately following the end of violent conflict—the golden hour—the affected populace needs jobs. Effectiveness must trump efficiency. Local private sector operators have to be involved in the effort. Local governments need to be reestablished or reinforced. Since they do not spring up early in conflict affected environments, we need to anticipate the challenge.

Mr. Soroko described his experience directing International Relief and Development's community stabilization program in Iraq in 2006-2007. Its primary purpose was economic reactivation. Whether it directly reduced the level of insurgent activity is debatable. The program did generate 34,000 jobs ultimately resulting in 45,000 employment days (single person multiplied by number of days employed) by June 2007, six months into the effort. Mr. Soroko concluded that the program was effective. Many jobs were created, and violence dropped. While many variables accounted for these results, one of them was exceptionally good civilian-military coordination and cohesion.

The discussion that ensued yielded several lessons learned. Although micro-grants can help revitalize an economy, practitioners must guard against the distortions the grants create over time. Short-term jobs and vocational training—however critical they may be in the immediate aftermath of conflict—rarely lead to long-term sustainable jobs. Foreign donors, on whom practitioners rely, can be too results-driven. Whether stabilization or revitalization comes first or are concurrent remains an open question. Civilian and military personnel engaged in the reconstruction effort need to know that while they cannot rely solely on public works to reactivate an economy, the public-private partnerships that are the ideal substitute generally do not develop at the flick of a switch.

The third panel initiated the discussion on the underpinnings of governance and rule of law. They confirmed that context is as important as principles in determining the right

mix of macro- and micro-elements that underpin the transition from a post-conflict to a wealth-creating society. The panelists agreed on many points, among them that we cannot develop sustainable capabilities on the basis of “one size fits all.” All countries are different; recovery depends on the institutions of a country; the role of local and central governments should be a function of what has to be done, when and where; and culture matters.

Dr. Beardsley centered her presentation on the World Bank program supporting legal sector reforms in Afghanistan. She described the multifaceted aspects of the justice system in Afghanistan. The strategic choices for external reformers are difficult since there is no comprehensive data that gives a clear picture of the challenges. The Government of Afghanistan has more realistic expectations of what can be done, she said; the donors are undermining their own interests when they disregard this fact. Since the government is willing to pursue reforms—but on its own terms—the donors should put the government in charge.

Mr. Pandya echoed that sentiment. In the aftermath of conflict, the task is to rebuild capacity within the afflicted country. The goal must be the local populace governing itself. While donors should provide technical assistance to jump-start the process, stop-gap measures regrettably take a life of their own. This often results from lack of planning or patience, lack of data, and poor coordination. Foreign donors can correct the situation through continual monitoring and evaluation of programs, de-confliction, and the transfer of functions and responsibilities to the host country as soon as possible.

The discussion that followed made clear that the participants agreed that success implies donors’ transferring power to local officials and giving up control, though the time when this can be done is contextually determined. Formalizing the “rules of the game” of the informal systems—economic, judicial, and political—could help. It would ensure greater consistency and coherence of practices and procedures within the informal systems. By showing greater cultural sensitivity and knowledge of local dynamics, practitioners stand a chance to lay the underpinnings of governance and rule of law that will help stabilize and revitalize countries affected by conflict.

The fourth panel addressed the challenges of the illegal, illicit, and informal economies. A key question is determining how to curb illegal or illicit activity without jeopardizing the economic activities of small and medium enterprises operating on the margins of the licit and illicit economies. If properly oriented, such firms can become substantial players in wealth-creating societies. The informal sector easily morphs, however, and through its interstices, corruption and other illegal and illicit activities can provoke disastrous effects through the rest of the economy.



Dr. Crane presented findings derived from work that he and his colleagues had done at RAND. He said reviving local activity is key to improving the lot of the local populace in conflict affected countries, and key to revival is physical security. In its absence, crime thrives. A good way to control it is by having decently paid “cops on the beat.” Those taking bribes, and the civil servants doing so, should be disciplined, not necessarily fired, keeping in mind the likelihood of their extensive family ties. Keeping the civil service accountable, transparent, and small will help curb corruption.

Dr. Westneat described his experience mapping the structure of the informal markets in Bangui, Central African Republic, in the early nineties. The illicit or illegal activity that he and his associated recorded seemingly did not threaten the security of the state. Protection forces sprung up and extorted funds from many merchants. This was not unlike the bribery on the roads and at the border crossings. Since some of the goods sold were contraband, many merchants may have considered payment of bribes a cost of doing business.

Following the presentations by the four panels, Mr. Kramer said a large conference of stakeholders most probably would follow early in 2009 to review the conclusions and recommendations of all three workshops. It may also propose to the Obama administration a way to effect stabilization and reconstruction in conflict-affected countries.

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## **Executive Summary and Recommendations**

by

**Franklin D. Kramer and Joseph P. Gregoire**

Many practitioners of nation building know the macro-economic elements necessary for local and national economic recovery following substantial conflict. There is debate among them, however, about appropriate sequencing and timing, as well as about policies and programs that have been effective or ineffective. What is clear is that reactivating economic growth in countries in the immediate aftermath of violent conflict calls for measures different from those applied in conventional development.

In such settings, the activities being pursued must reflect a strategy that addresses the immediate needs of the populace at the personal and institutional levels, the execution of which will quickly reduce the suffering of the afflicted populace. Essential components of such a strategy are basic, if not crude, fiscal and monetary policies that will replenish the public coffers with the funds necessary for a new or restored local administration to carry out the fundamental tasks of government and, equally important, to re-establish credit and price stability, the pre-requisites to sustainable economic recovery.

Restoring a healthy micro-economic environment is equally crucial to nation building in the wake of violent conflict. After first responders have met the basic human needs of an afflicted population—food, water, shelter, security—the programs that follow to reactivate an economy must be quick and simple to implement; they must sustain basic livelihoods; and they must be the base upon which more complex and fundamental reforms can be implemented to transform the conflict affected economy to one that will consolidate economic growth.

The practitioners or resuscitators of a moribund economy need to quickly restore pre-conflict livelihoods and expand the local economy to consolidate a fragile peace. How can they do this within the first year of the end of violent conflict—the analogue to the golden hour following traumatic injury? They can do so by creating jobs quickly—any that will give the populace hope, that will “drain the swamp” of trouble-makers, and that will draw on local resources and reflect local supply and demand for them. Such action is critical; no other measure is apt to be an adequate substitute.

In all cases, the emergency economic responders must trade off the long-term efficiencies associated with conventional developmental practices for the short-term measures of effectiveness that result in the creation of jobs, the extension of micro-credit, and execution of quick-impact activity. Small infrastructure projects like those funded through the U.S. Army’s *Commanders Emergency Response Program* and by the U.S. Agency for International Development (e.g., USAID’s community stabilization and

similar programs) are among the activities that must be pursued. If sustained, they are likely to be effective means to reactivate economic growth. Moreover, they will vindicate hope, which tends to be catalytic of positive change when actualized.

Determining the right mix of macro and micro elements that underpin the transition from a post-conflict to a wealth-creating society requires understanding the context in which this is to be done. This is the key to developing the institutions of governance and rule of law that we need to reactivate an economy in post-conflict settings. For this, practitioners must engage in an analytical process analogous to intelligence preparation of the battlefield. Sharp analysis and appreciation of the social and cultural values and constraints that can impede change—both within the state or region having been affected by conflict and the country or agency providing assistance—is imperative. Several frameworks have been developed to facilitate such analysis, but since the development of sustaining capabilities cannot succeed on the basis of a one size fits all approach, the right sequence of activities effecting economic transformation in one situation may be inapt in another.

Getting most if not all the macro- and micro-economic elements right to reactivate economic growth in conflict-affected countries is never easy, especially when illegal drugs, human trafficking, and other activity including illicit or illegal trade, account for much of the gross national product. Unfortunately, such activities typically characterize countries or regions forcibly stabilized and the economic activity of which must be quickly reactivated. The safest way for practitioners to traverse such mine fields is by way of the informal sector. Working with government officials, business entrepreneurs, and members of civil society, practitioners must pursue programs and projects that promote the economic well-being of small and medium enterprises operating on the margins of the illicit economy. When properly oriented, the latter will, more often than not, transition their activities to the licit or formal economy and in the process can become substantial players in a society creating wealth.

The vital component that underpins all the above is not economic, however. The actions recommended above can be implemented only in secure areas in which economic activity can be sustained without peril to life and limb. Without security—the *sine qua non* to all the above—neither stabilization nor economic growth will take hold. Since here we posit security being established in the countries in which we aim to reactivate economic growth, the recommendations below collectively show the way ahead.

### **Recommendations: Strategic and Operational Guidelines**

#### **Macro-Economic Sustainment of Transformation**

1. Most practitioners of development in conflict affected settings have been wrongfully pursuing development based on conventional wisdom.

- In countries emerging from violent conflict, the priority should be to create jobs, “just jobs” that no one expects to be permanent.
  - The reforms that should follow—and there are many—should aim to bring people into the market.
2. Early attention to the fundamentals of economic growth increases the likelihood of successfully preventing a return to conflict and moving forward with renewed growth.
3. External peacekeepers and robust economic growth have proven to be more critical than political reform in preventing a return to conflict.
- Many interventions designed to facilitate economic growth can and should be implemented at the very beginning of the rebuilding process, much earlier than traditionally has been the case.
4. The failure of post-conflict efforts to create an economic environment that encourages initiative, employment, and growth sustains the dysfunctional economies of post-conflict countries and thus tends to weaken rather than strengthen the prospects for lasting peace.
- Post-conflict programs that pay little attention to economic issues fail more often than programs that focus on such topics.
5. In the immediate aftermath of conflict, economic growth programs should aim to stabilize the economy and position it to grow rapidly. The way to do this is by:
- Creating jobs and otherwise improving well-being as quickly as possible;
  - Addressing the root macro- and micro-economic causes of the conflict; and,
  - Re-establishing essential economic governance functions and restoring the government’s legitimacy.
6. Donors should begin work in multiple areas immediately and simultaneously, and begin early to build long-term capacity. They need to:
- Focus on basics;
  - Establish priorities;
  - Pay attention to sequencing; and
  - Understand recurring trade-offs.

7. Because of the ever-present risk of a return to conflict, practitioners need to make decisions quickly, balancing trade-offs that are much more acute than in stable developing countries. Four trade-offs consistently recur:

- The need for *effective* economic solutions in the short term while moving toward more *efficient* solutions over time;
- The tension between the need to achieve tasks *urgently* and the effect such actions might have (if they bypass local institutions) on the government's perceived *legitimacy*;
- The conflicts that can arise between *short-term* and *long-term* objectives; and,
- The desire to use the *window of opportunity* to make dramatic economic reforms immediately after the conflict, contrasted with the very limited *absorptive capacity* of most governments to effectively use substantial aid.

8. Regardless of the effectiveness of donor-financed programs in the short run, it is the country's capacity to sustain economic growth that matters most for long-term success.

- Permitting host-country institutions to play a larger role in delivering services is one of the most effective ways to develop this capacity and to re-establish the legitimacy of the host government.
- The types of short-term programs that are appropriate for creating jobs and improving livelihoods immediately following violent conflict should not be funded in perpetuity by donors.
- There must be a clear prospect of growth indigenously sustained through productive, private-sector employment displacing short-term donor programs.

9. The lessons learned from post-conflict experience suggest best practice interventions in seven key sectors:

- Fiscal and monetary policy,
- Employment generation,
- Infrastructure,
- Private sector development,
- Agriculture,
- Banking and finance, and
- International trade and border management.

10. The challenges of conflict-sensitive growth involve transformation, not merely transition.

- Our goal should be to open the market environment in a complex political economy.
- We must think inclusively about all layers of the economy, not just the formal sector. Much of the economy of conflict affected countries lies outside official control.

11. Conflict affected economies are a potpourri of fragility. Their situations are not homogeneous.

- The complex political economies of societies emerging from conflict require targeted interventions.
- Each conflict or post-conflict situation is *sui generis* and calls for unique priorities and sequencing.
- Practitioners must have a conflict-sensitive focus on actors, institutions and activities.
- Conflict-sensitive growth (a peace dividend) can take hold only when enough people feel they have a stake in the peace.

### **Micro-Economic Sustainment of Wealth-Creating Societies**

12. Quickly restoring a healthy micro-economic environment is crucial to nation building in the wake of violent conflict. This means we must quickly revive pre-conflict livelihoods and expand the economy. To bring this about, we must:

- Consider the nature of conflicts in individual countries;
- Determine whether we as practitioners are supporting—that is, following—the military or are leading the stabilization and economic growth effort;
- Understand the local social landscape and identify all stakeholders including professionals we can work with in the diasporas;
- Help to make the markets work. We need market solutions, if possible by relying on local providers.
- We must not neglect agriculture. It supports broad economic growth.

13. Perceptions matter. Aid is not neutral: the effect of its provision is a function of to whom, when it is given, and how it is channeled.

- Recovery programs must be simple to quickly restore livelihoods and re-establish the effectiveness and legitimacy of local institutions.
14. The timetables of donors and intervention forces and beneficiaries are not the same. Stabilizing an economy and setting its base for economic growth takes time.
- Avoid the urge to use the military or other external actors simply to “get things done better and faster.”
  - Empower local communities to do things for themselves. The local populace may not work as well or as fast as expatriates, but that which the former can do is good enough for the objective at hand and is more likely to be sustainable.
15. The local populace needs to be the main source of supply of goods and services to kick-start the economy.
- Build on existing relationships and with pre-conflict business firms.
16. Timing and sequencing are important.
- Initiate economic policy programming without waiting complete stabilization. Capacity development and governance programs need to be started early.
  - Accept short-term imbalances between geographic areas and economic sectors, but avoid extreme imbalances that favor one over another.
  - Move fast, but stay long enough to better the chance for success.
  - Assess the impact of programs continually, and have a clear exit strategy in mind.
17. The infrastructure sector often has the greatest potential for rapid growth, through the creation of jobs, immediately following protracted conflict.
18. Understanding and benchmarking the larger social, political, and economic context are critical to the design and execution of appropriate microeconomic responses in conflict-affected environments.
19. Successful microeconomic programs typically focus on strengthening existing relationships within the private sector rather than attempting to forge new ones between conflicting groups.
20. To minimize the local populace’s dependency on foreign assistance, development assistance should be channeled through existing service providers—commercial banks, microfinance institutions, local consulting firms, and non-governmental organizations—rather than through new service delivery entities.

21. Private sector demand for labor is the key to success of workforce development initiatives.

- Determine this demand by forming local business councils in geographically targeted areas focusing on priorities and strategies to develop a workforce that meets employer demands.

22. Restoration of the most complex “economic” infrastructure generally requires heavy machinery, and is not sufficiently labor intensive to meet the short-term job targets of the immediate post-conflict period.

- During this time, the “golden hour,” accord capital-intensive infrastructure projects lower priority than other projects that generate more short-term employment.

23. Keep in mind that most jobs generated during the golden hour are not likely to lead to sustainable employment; they may only provide on-the-job training and income a short while.

24. Donors tend to have unrealistic expectations about job creation.

- Setting the foundation for better long-term jobs (by beneficiaries earning more income in their actual jobs or transitioning from part- to full-time employment) is more realistic than creating new long-term jobs, which cannot be created out of thin air.

25. The payoff of efforts to work with private sector firms to create long-term jobs develops slowly.

- Entrepreneurs in conflict-affected areas tend to have a very narrow focus on ways to revitalize and grow their core business operations. They need time to warm up to ideas like partnering with non-governmental organizations or the military.
- The prospective role of the private sector must be reflected up front in program design and analysis, due diligence, and outreach to private business firms, as well as the staffing requirements required to develop and maintain relationships with the private sector.

26. In a conflict-affected environment, stability rests not only on generating short-term results but also on building the long-term foundation for sustained employment and economic growth.



## **Governance and Rule of Law Underpinnings**

27. All countries afflicted by conflict are different. The syndromes include failing, recovering, fragile, and could-fail states.

28. Recovery depends on the quality of the institutions of a country, in politics, economics, and security, as well as on the effectiveness and legitimacy of these institutions.

- Donors are too hung up on effectiveness rather than legitimacy.

29. The roles of the local and of the central governments should be a function of what has to be done, when, and where. Each unit of government may separately play the lead part at some point along a continuum of events that may occur sequentially.

30. Society is an organic system subject to change and culture matters.

- Change in any component ripples through the system, often in unexpected ways.
- Culture looks backward, is sustained by experience, and changes slowly.

31. Technical assistance may be needed to jump-start governance and public administration when these have been neglected and have seriously deteriorated.

- Such aid should also be used early to train nationals, preferably career civil servants, of the country assisted.
- Its guiding principles should reflect the need to transfer technical and management functions to local officials as soon as possible, as well as to progressively diminish their reliance on expatriate expertise.
- Short-term technical assistance that is intended as a stopgap often takes on a life of its own; however, aid appropriate to an emergency may be ill suited for long-term capacity development.
- Plans should be made for the provision of technical aid beyond the emergency period if long-term capacity development is not to be neglected because of donor focus on the short term.

32. The training of, and transfer of functions to, local officials and experts in order to build long-term capacity is practically impossible in the absence of a firm commitment among expatriates and donors to empower local officials.

33. When the ability of a government to meet the immediate needs of a conflict affected population determines the popular legitimacy of that government—and indeed of a

fragile transitional post-conflict or post-crisis political order—meeting those needs is essential to the maintenance of security.

34. The international donor community must avoid the donor-centric mistakes of the past, given the increasingly scarce aid resources and concomitant risk of failure of post-conflict stabilization efforts.

35. Donors must maintain realistic expectations. It takes time to effect sustainable reforms, often more time than donors are prepared to allot to the task at hand.

36. Donors should provide more predictable and multi-year funding to enable the governments and donor agencies to plan capacity building coherently.

- Year-to-year changes make it impossible to carry out the long-term planning necessary to develop sustainable capacity.

37. Technical assistance and assistance for capacity building should be made a part of the core government budget as soon as possible rather than allow it to remain uncoordinated in various donor budgets.

- Loss of control makes donors nervous, particularly in cases of government incapacity or corruption.

38. However successful national capacity building efforts prove to be, failure to bring along sub-national government units will constitute a serious weakness of a government struggling to establish its legitimacy and sustainable capacity.

39. A fundamental principle that should guide donor capacity building efforts is that host country governments must assume leadership. It is, in all cases, preferable to allow them to learn from failure while donors remain in country than to have them run the risk of failure to build capacity sustainable after donors depart from the scene.

40. Three concepts explain how stabilization and economic growth can be sustained in countries affected by conflict: resiliency, effectiveness, and legitimacy.

- The fundamental source of state *resiliency* is the quality of its underlying institutions. These institutions comprise the political, economic, social, and security elements or dimensions of state capacity. Its quality depends on the legitimacy and effectiveness of each element.
- *Effectiveness* refers to the degree to which a state has the administrative capacity to successfully carry out tasks of public service provision and governance—*e.g.*, balancing the budget, training judges, or upgrading telecoms.

- *Legitimacy* refers to the perceptions of various groups in a society that the state is acting or not acting with encompassing interest. Ethnic groups can co-exist peacefully as long as they are confident they are being fairly treated by the government; systematic discrimination generally triggers opposition and rebellion.

41. Given that the state is an organic system, strengthening the elements of state capacity independently of one another will have limited and possibly unsustainable effect.

- Changes should be made across the dimensions of state capacity in order to strengthen the constitutional order,

42. Practitioners must recognize that failed and fragile states come in many “flavors” (syndromes). A one-size-policy response does not fit all.

43. The strengthening of local and central governments may require a sequential approach.

- It is possible to consolidate a weak central government whose action is circumscribed by stronger sub-national governments as the latter cede powers to the center once trust and centralized efficiencies are achieved.

44. A post-conflict regime’s success requires that the relevant players believe it will succeed. When they do, it generally succeeds; when they do not, failure becomes a self-fulfilling prophecy.

- Donor commitment to the needs of the new regime through several elections supports the legitimacy of the new order and serves to adjust mutual expectations toward success.

45. Donors need to strike the right balance between the best and the good. They must distinguish between what needs to be done in a situation if everything necessary could be done and the opportunities in it for effective intervention (not necessarily what is most needed, but what is possible).

### **The Challenge of Illegal and Illicit Economies**

46. Do not neglect the informal sector. It cannot be permanently repressed.

- It can easily morph and through its interstices, corruption and other illegal and illicit activities, like corruption, can provoke disastrous effects through the rest of the economy.

47. Criminality and corruption can become the endemic twin plagues of post-conflict societies.

- The prerequisite for finding a solution to both can be summed in a word, if not a mantra: security, security, security.
- Studies completed by RAND show that while the illegal production and sale of substances like narcotics is a “productive” activity, in general, the rest of the economy grows faster than does the narcotics trade when conflict declines.

48. The financing, production, and distribution of narcotic substances often poses major impediments to reactivation of economic activity.

- Dismissing from positions of power or side-lining key people aiding or abetting illegal trade in conflict affected countries is often more effective than prosecuting them because of the deficiencies in these countries’ legal systems and because of the extensive interdependent socio-economic networks of such officials.

49. Reducing corruption in the civil service will facilitate stabilization and economic growth in conflict affected countries.

- Keeping the civil service small is the way to do this. Idle hands have time for mischief.

50. Informal sector markets of conflict affected countries are characterized by a wide set of activities that go beyond the marketing of contraband products.

- Illegality may cut a wide swath across market activities: cross-border transport, road-side bribes, sabotage, rent-seeking, petty thievery, avoidance of taxes, etc.
- Curbing substantial illegal and illicit economic activity is essential to stabilization and reactivation of economic growth in conflict affected countries.

## **Panel I: Macro-Economic Sustainment of Transformation**

Practitioners of nation building know the macro-economic elements required for local and national economic recovery following substantial conflict. There is nevertheless debate among them about appropriate sequencing, as well as what policies or programs have been effective or ineffective and over what period. Dr. Frank Young, Vice President for International Development and fellow of Abt Associates, moderated the discussion on these issues. Before joining Abt Associates in 2006, he was Senior Deputy Assistant Administrator at USAID's Bureau for Africa. The first panelist was Dr. Jay Smith, a consultant to USAID and formerly Acting Assistant Administrator for Economic Growth, Agriculture, and Trade at USAID, as well as the lead author of *A Guide to Economic Growth in Post-Conflict Countries*. The second panelist was Dr. Raymond Gilpin, Associate Vice President of Sustainable Economies at the Centers of Innovation of the U.S. Institute of Peace in Washington, D.C.

### **Presentations**

Dr. Smith's presentation centered on USAID's *A Guide to Economic Growth in Post-Conflict Countries*. He and his associates wrote the guide because most practitioners of development in conflict affected settings had been wrongfully pursuing development based on conventional wisdom in such environments. In countries emerging from violent conflict, the priority should be to create jobs for the unemployed, "just jobs" that no one expects to be permanent. The reforms that should follow—and they are many—should aim to bring people into the market. Dr. Smith concluded his presentation noting that the practitioners who understand the relationship between stabilization and economic growth know they have to work on multiple fronts simultaneously to put a damaged economy on sound footing.

Dr. Gilpin pursued the theme by saying that the challenges of conflict-sensitive growth involve transformation, not simply transition from conflict to peace. To kick-start such growth, practitioners need to open or clear up the market environment in a complex political economy. They need to focus on the actors, institutions, and activities that condition this economy. Since the environments of conflict affected countries are a potpourri of fragility, coordinating effective action among and between foreign donors, the conflict affected government ministries, and members of the civil society within these countries is very difficult. The distributive impact of such action, as it affects all stakeholders in the countries suffering from conflict, must always be borne in mind.

### **Plenary Discussion**

Dr. Young opened the discussion by noting how critical security is. He said development and humanitarian aid personnel are being killed pursuing their work and asked: What can we do better? Many practitioners are novices in the field of stabilization and

reconstruction and putting both together is new to them. From its discussions with donors, Abt Associates has found that the conventional development toolkits are not especially useful in post-conflict situations. One problem is that practitioners must often do surveys to determine the requirements of development in an environment of imperfect information. The search of relevant literature yields case studies, but the conceptual and analytical work is thin. Eighty percent of the relevant documentation was written after 2003.

We have learned certain lessons, however; for instance, that the end of hostilities is not always clear. Conflict and conflict prevention are the two sides of the same coin. Each conflict or post-conflict situation is *sui generis* and calls for unique priorities and sequencing. A big issue in most if not all conflict affected environments is how to deal with the macro-economy. Dr. Young said Jay Smith is here to tell us how to do this.

Dr. Smith began his presentation by saying he had served in USAID 29 years and his experience in Mozambique from 1994 to 1998 was most relevant to the discussion that would follow. He said most aid workers in the field do what they know best: development based on conventional wisdom. Their experience and knowledge reflect lessons learned from pursuing development in relatively peaceful settings, not post-conflict environments. Since most development experts are not prepared to work in such regions, USAID has developed guidelines for practitioners operating in conflict affected areas. The key lesson is that economic growth is critical to the successful transition from conflict to peace. Although democracy is important, it is not the key to success. Forty percent of countries riven by conflict suffer from it within a decade following the cessation of conflict in the absence of sustained economic growth. Such countries are characterized by persistently high unemployment and among the unemployed are persons susceptible to re-engaging in violence.

The context of post-conflict situations includes the political environment, where powerful old interests often retain influence following the cessation of conflict. Their presence can weigh heavily on an economy that may have collapsed as a result of heavily damaged or destroyed infrastructure, if it existed in the first place. The nature of the conflict that led to the existing situation and the nature of the peace that ensues are important bellwethers of a likely transition from conflict to peace. The deciding factor whether peace will endure is whether it overwhelmingly favors one party or not. Ideally, it must not. We must engage in peace talks and reconstruction programs with all the parties to a conflict to sustain peace.

The practitioners of stabilization and reconstruction in post-conflict environments must aim in the first instance to reestablish essential economic governance and restore the legitimacy of the government, to create jobs quickly, to position the economy to grow rapidly, and to address the root causes of conflict. (The charts and tables in *A Guide to*

*Economic Growth in Post-Conflict Countries* amplify these points). The practitioners can then increasingly dedicate resources to essential services, reconstruction of infrastructure, and policy and legal reforms—all with a view to building institutional capacity. The work need not be performed sequentially; indeed, the needs in the conflict-affected country may be such that parallel movement on all these fronts may be advisable.

In a country immediately emerging from conflict, the first jobs to be created should be “just jobs” said Dr. Smith. No one should expect them to be permanent. The reforms that follow should aim to bring people into the market; for example, through measures like freeing up cabbage prices rather than providing cabbages directly to consumers, thus encouraging more of them and the producers of cabbages to enter the market.

While doing this, practitioners must start to build or restore the institutional capabilities at the macro level. The way to do this is to focus on the most evident needs, to prioritize the associated responses on the basis of their expected mid- to long-term payoffs, and to prepare the host country officials for the transition to self rule. Best practices to do this are listed in the USAID guide.

Dr. Smith said getting fiscal policy and the associated institutions right in the aftermath of severe or prolonged conflict poses a big challenge. Government receipts and expenditures must be controlled. Practitioners can help host country officials to do this by identifying the activities or goods that can be easily taxed and by reforming the customs service. Keeping state expenditures and revenue balanced is equally important. Since fiscal reform will most likely be necessary, tax policies must be phased in accordance with the growth of institutional capability. Appropriate information technology can raise the likelihood of success.

The appropriateness of the circulation of money and of banking services are two equally important determinants of the success or failure of post-conflict interventions. Practitioners should determine, before or immediately after their initial intervention, whether payment systems are functioning. Access to currency can be an issue. The government should legalize and control foreign exchange dealers. Mozambique started out with dollars following its revolution in the nineties. If local currency is lacking, the donors and the host country authorities should not extend excessive credit in the immediate aftermath of conflict. Too many of the banks will then be weak and too many borrowers will be unable to repay their loans. Conversely, donors and the authorities should extend grants judiciously early on while weeding out weak banks. They should strengthen the bank licensing and supervision capability in the country. And to control inflation, they should remove restrictions that impede greater supply of goods and services in the market.

Dr. Smith concluded his presentation by noting that the practitioners who understand the relationship between stabilization and economic growth know they have to work on multiple fronts simultaneously to put a damaged economy on sound footing. USAID is doing this in post-conflict settings; it is not simply doing “development as usual.”

Dr. Gilpin picked up where Dr. Smith left off, mentioning a few words about recent thinking on sustaining economies; in particular, the macro-economic dimension of conflict-sensitive economic growth. To understand it, he said, people need to know something about the fragility of economic systems and the potpourri of programs involved in attempts to keep the systems intact.

The challenges of conflict-sensitive growth involve transformation, not simply transition from conflict to peace. There are multiple layers to an economy that has been damaged by conflict: the dying old system and the emerging system of the formal economy, as well as the informal, illicit, and subsistence sectors of the economy. To kick-start conflict-sensitive growth, practitioners need to open or clear up the market environment in this complex political economy. They need to focus on the actors, institutions, and activities that condition this environment. They have to think about all the layers of the economy, not just the formal sector, since much of the economy lies outside official control.

The environments of post-conflict countries are a potpourri of fragility. Their situations are not homogeneous. This miscellany makes coordination among stakeholders very difficult. How do they define the situation? How quickly can they respond to it? It is not just the urgency of the situation that calls for action; as events unfold, things can quickly get out of hand. Even in calmer environments, a dynamic can take hold that leads to surprises later. Interventions should be culturally sensitive. Practitioners need to know who the actors are. Are the right ones being targeted? What institutional structures are there, including parallel economies?

Post-1994 developments in Rwanda provide a case study. Following the 1994 genocide, before anything else, it was necessary to re-establish security. Once this was done, conflict-sensitive growth (a peace dividend, if sustained) could take hold only when enough people felt they had a stake in the peace. Since economic activity had come to a halt in Rwanda, first it was necessary to ease price controls, lower interest rates, and reinstitute the banking system to get the economy going again in order to restore hope, especially among the rural populace. So among the challenges to be met are those that relate to the distributive impact of changes in the formal economy.

The absorptive capacity of Rwanda’s economy was a big issue. Much of the foreign aid to Rwanda in the few months following the genocide could not be absorbed. Effective absorption is not a question of how much aid has been received but rather how well it is



spent and on what? To accumulate reserves? On imports? It takes a country much time to absorb effectively all available aid. Its institutional capacity must be developed. The aid must reflect reality on the ground, which means donors must take account of the domestic economy and the absorptive capacity of its institutions. Confidence must be restored among all parties. While it takes at least a decade to do this to recreate an economy, foreign agencies usually do not have that time or patience to achieve such a result.

Initiating the discussion that followed, Dr. Smith said we practitioners must follow a phased approach to ensure a smooth transition when using donor inputs. We usually should not expand efforts as fast as our headquarters may want, even if they want quick results. Some aid has to be deferred. We need to gauge the perceptions of risk by local investors and those of the surrounding region and beyond. Since confidence about the future is critical, the first investors most probably will be local. These are the people we should be encouraging. We should not expend much effort trying to get the attention of big international investors during the first three years of a reconstruction effort. A lesson we can draw from the dynamic development of telecommunications in Somalia is that we should not worry about the absence of a regulatory framework in the first phase of an intervention. During its revolution in the nineties, Mozambique did not modify its regulations, but it did attract many domestic and foreign investors. Mozambique treated them well. Its officials had few or no inhibitions about doing so. Successful investment depends on local leaders encouraging investors, said Dr. Smith.

Dr. Gilpin cautioned that capital intensive projects generally will not develop in the first few years following conflict. It is nonetheless important to get such projects in a pipeline, ready to go. Donors need to devise multi-year programs for this purpose. Ten years is, of course, a long time for donors and the host nation populace who typically expect quick payoffs. The World Bank is adept at such long-term programming, but a “dictator” might be needed for the local populace to sustain the effort that long.

Dr. Gilpin said the exceptions to the rule above tend to be investments in the natural resource sector and in telecommunications. In resource-rich countries like the Democratic Republic of Congo, large traditional investors want to reinvest in the natural resources sector immediately after a conflict is over. Much capital flows in, but it has little impact on the quality of life of the local populace. We should look to non-traditional and non-state investors for improvement.

Eric Beinhart, Department of Justice, asked what kind of education is necessary to sustain the economy of a conflict affected country. What about languages? Dr. Smith replied that education is a high priority in Africa. There is real interest in obtaining resources for it. However, the United States has not encouraged foreign language training in basic education programs abroad; it has tended to focus on vocational skills training.

Consequently, immediately after conflict, the foreign entities including the nongovernmental organizations engaging themselves in conflict affected countries must often bring in skilled expatriates. In this environment, practitioners need to initiate low skill level labor-intensive projects right away.

Dr. Gilpin rejoined that the skills issue is important. Aid contractors should not only implement projects, but mentor host country nationals as well. The diasporas should be called upon since they have technical and local skills that can help reactivate depressed economies.

Major Robert Vasquez, Army Judge Advocate General's Legal Center, asked if short-term actions have ever yielded long-term results. Dr. Smith said organizing seed fairs rather than just providing seeds to farmers is an example. Letting farmers choose seeds to grow crops jump-starts the seed market and stimulates the broader local market.

Dr. Clifford Zinnes, senior fellow at the IRIS Center, said the shortage of skilled labor can partially be resolved by looking at the demand for it. People need a return or payoff from education. The central government might be responsible for it, but it is not evident that the education ministries can deliver the goods. Creativity is needed to dispel doubt since the populace and donors mistrust central government officials. The individual states of the United States gradually devolved power to the center rather than the other way round; the same process may be necessary in conflict affected countries. As regards donor coordination, the slogan should be: "Be modest, start small." We need buy-in by all stakeholders. If each donor acts willy-nilly, uncoordinated, all compete against one another, sometimes at cross-purposes.

Dr. Gilpin replied that pulling it all together is a huge challenge. The greater the local control, the less the center controls. There are practical problems with the decentralized approach, among which is the need for effective local institutional capability. The Democratic Republic of Congo has local, decentralized processes, but the system creates problems when resource-rich areas are cordoned off. At the same time, practitioners face monumental problems of capability and motivation in the non-resource-rich areas.

Dr. Smith replied that donors must first attend to central government functions that are weak. Donor coordination is critical. He pointed to the Marshall Plan, the first year of which was a failure. To set things right, President Harry Truman called in former president Herbert Hoover, who provided strong guidance to all the U.S. Government agencies involved in the effort. (The Marshall Plan represented three percent of U.S. gross national product at the time.) Hoover provided leadership following which the plan became a historic success. The lesson is: We need strong leadership and patience everywhere to effect reconstruction. In Mozambique, the UN provided such.

Dr. Smith said a problem is that donors revert to uncoordinated action and renew competition against one another as the sense of urgency fades away. Dr. Young echoed that sentiment. He said agriculture programs in Liberia were delayed for years because of donor disputes. Their constituencies back home wanted results. Dr. Westneat agreed that donor states are too often in conflict.

Dr. Zinnes asked where the U.S. military fits in all of this. Is it just another foreign agent? How does the U.S. government coordinate it all?

Mr. Kramer prefaced his reply by saying that the circumstances in Afghanistan serve as an example of the difficulties that confront the practitioners in the field, including civil-military personnel. It is hard to love the central government. We have been there seven years and the economy is still a basket case. What do we do with the military and about jobs? The military wants to stop violence. When it stops, the military wants to establish stability. The thing to do is to create jobs early, even if they are not sustainable.

Dr. Smith responded that the situation in Afghanistan is not yet post conflict. We have not moved very far along the continuum from conflict to peace. Do the military deploy to defeat the Taliban or to protect infrastructure? In the present circumstances, we cannot rely on the private sector to create jobs.

Dr. Gilpin said donors are paying more attention to Afghanistan now. The tools we have to address a host of issues are good, but we lack understanding of the complexities of the environment. He said former Afghan finance minister Ashraf Ghani had recently asserted that 85 percent of the donor effort in his country has been ineffective since donors do not understand the context. Donors spend seventy-five percent of the time baby-sitting, Ghani had said. Dr. Gilpin believes that we need to use the tools we have more effectively.

Dr. Gilpin said donors should also finance a trust fund for Afghanistan. Initially, it should include only traditional donors, not new ones. Coordinated action is required. We need one government and one policy. From 2003 to 2005, the U.S. Treasury Department pursued activities in Afghanistan that lacked coordination in Washington. It has since gotten better. How can we mobilize trust funds, especially private funds, like the Bill Gates Foundation?

Dr. Smith replied that we need a host-country government we can follow, such as we had in Mozambique in the early nineties. Afghanistan may need something like the drought of 1992 in Mozambique that broke the will of the warring parties, who ended the fighting. This made it easier for the parties to sustain the peace to which they had agreed. We need to weed out bad finance ministry personnel, as had been done in Mozambique. Mozambique's independent central bank got control of fiscal policy. The donors

implemented big aid programs, however unevenly applied. The overall effort succeeded because Mozambique's leaders knew what had to be done and were ready to do it. But in the absence of host-country leadership, the situation is hopeless.

Dr. Neil Efir, PKSOI, said Mozambique succeeded because its government and donors had a running start. Power was shared. He asked whether micro-credit played a role there. Donors need to bridge the gap between macro- and micro-finance in many instances. Dr. Smith replied that the bridge between micro-lending and commercial banking remains a mystery. He did not see much microfinance lending in Mozambique. If it was available to farmers, the larger farmers might have been grabbing it all.

Dr. Young concluded the Panel One discussion by noting that donors and conflict affected countries have gone in unexpected directions in almost every case. He said setting the macro-economy right takes flexibility and adaptation. Action has to be suited to the environment. Solutions cannot be imposed. And since donors spend so much energy managing one another, almost as if in a vacuum, we must find some way to coordinate our action more effectively.

## ***Guide to Economic Growth in Post-Conflict Countries***

by

Dr. Jay Smith, USAID

This note provides a summary of the main messages concerning post-conflict economic growth in the USAID publication *A Guide to Economic Growth in Post-Conflict Countries* (the Guide)<sup>1</sup> and introduces the macroeconomic issues and concepts learned from USAID and other donors involved in post-conflict countries. The views expressed here are those of the presenter and do not necessarily represent the views of USAID. Readers who assimilate the lessons learned presented in the Guide may find it easier to help bring about successful economic recovery in post-conflict transitions.

In 2007, USAID began developing the Guide for reasons of great concern. First, we anticipated that USAID would continue to operate in conflict and post-conflict countries long in the future. Second, we observed that far too many USAID economic growth officers believed they could either (a) apply in conflict affected countries what they knew about promoting economic growth in stable developing countries or (b) rely on a “natural” economic rebound and thus focus USAID’s programs almost exclusively on other high priority tasks, such as holding elections and building democratic institutions. In fact, neither approach has been successful in practice. Third, we learned that the failure of post-conflict efforts to create an economic environment that encourages initiative, employment, and growth sustains the dysfunctional economies of post-conflict countries and thus tends to weaken rather than strengthen the prospects for lasting peace. The evidence suggests that post-conflict programs that pay little attention to economic issues fail more often than programs that focus on such topics. Despite these findings, until recently there was little or no guidance about how to handle economic issues specifically relevant to post-conflict situations.

USAID consequently decided it needed a practitioner’s guide to lay out what is different about post-conflict situations and why its economic growth officers should develop programs that take these different circumstances into consideration. Better guidance tailored to the special conditions found in post-conflict settings would help the practitioner set sound, effective priorities and raise the odds of a successful transition out of the cycle of violence.

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<sup>1</sup>A copy of the 2007 draft version of the Guide can be downloaded from [http://pdf.usaid.gov/pdf\\_docs/PNADL494.pdf](http://pdf.usaid.gov/pdf_docs/PNADL494.pdf). A published version will be available in 2009.

## **Economic Growth Programs: A Significant Part of the Solution**

The purpose of economic growth programming in post-conflict countries is both to reduce the risk of a return to conflict and to accelerate the improvement of well-being for everyone, particularly the conflict affected population. Economic issues may have contributed to the outbreak of violence in the first place, through the inequitable distribution of assets and opportunities or simply a widely held perception of inequitable distribution. Economic interventions need to be an integral part of a comprehensive restructuring and stabilization program. While economic growth is not the sole solution to resolving post-conflict issues, it can clearly be a significant part of the solution.

### **A New Approach**

Evidence shows that early attention to the fundamentals of economic growth increases the likelihood of successfully preventing a return to conflict and moving forward with renewed growth. Since 40 percent of the post-conflict countries that Paul Collier and his colleagues have tracked have fallen back into conflict within a decade<sup>2</sup>, it is critically important to heed this evidence and to alter the familiar donor approach, which focuses first on humanitarian assistance and democracy-building, with economic issues sidelined to be dealt with later.

***Start early:*** Paul Collier, who is Professor of Economics at Oxford University and a leading expert on African economies, argues that external peacekeepers and robust economic growth have proven to be more critical than political reform in preventing a return to conflict.<sup>3</sup> Accordingly, many interventions designed to facilitate economic growth can and should be implemented at the very beginning of the rebuilding process, much earlier than traditionally has been the case.

***Address the causes of conflict:*** It is critical to understand that paying immediate attention to economic growth does not mean doing the same thing that ordinarily is done in stable developing countries. Post-conflict environments demand a different approach. Countries emerging from violence have fundamentally different characteristics as a result of conflict. Most post-conflict countries were already poor and badly governed before the outbreak of violence. Their problems were almost always made worse by conflict. More important, the nature of many of their problems also changed. Their post-conflict settings are characterized by physical and human destruction; dislocation, unemployment,

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<sup>2</sup> Paul Collier, Anke Hoeffler and Måns Söderbom. 2007. *Post-Conflict Risks*. Centre for the Study of African Economies, Department of Economics, Oxford University.

<sup>3</sup> *Ibid.*

and demobilization of combatants; weak and fragile governments; high expectations and a sense of urgency; and residual geographic, ethnic, or other tensions.

Post-conflict economic growth programs must address as directly as possible the factors that led to the conflict, taking into account the fragility of the environment. Planning has to be based on much more than the narrow technical considerations of economic efficiency and growth stimulation. The programs must effectively expand the opportunities for and ensure the inclusiveness of the population. They should also be judged in part on the basis of whether or not they help mitigate the political factors that increase the risk of a return to hostilities.

### **What is Required for Success?**

***Clear goals:*** Clear goals are critical, because—in the chaotic circumstances that characterize the post-conflict period—everything seems to be needed at once, and there may be many actors with differing priorities. Each post-conflict situation is different, but in general, economic growth programs should aim to:

- reestablish essential economic governance functions and restore the government's legitimacy;
- boost employment and improve well-being as quickly as possible;
- address the root economic causes of the conflict; and,
- stabilize the economy and position it to grow rapidly.

***Sensitivity to context:*** In the post-conflict context, there must be heightened sensitivity to the political and social dimensions of the conflict. Economic growth programs must address these dimensions. Donors must consider the nature of the conflict, the nature of the peace, and the country's level of development as it emerges from the conflict. To be effective in such a sensitive political environment, every rebuilding program should reflect consideration of the impact it may have on the legitimacy of the government, on employment and improved welfare, and on equity or perceptions of equity of the various factions participating in the conflict.

***A pragmatic approach:*** At the core of all donor-supported economic growth programs must lay a highly pragmatic approach, based on an understanding of the critical barriers to resuming growth. Such an approach addresses simple issues first, removes barriers to the informal sector, and is structured in a way that offers the greatest immediate benefits in an equitable manner.

***Host-country ownership:*** Post-conflict economic growth programs need to be carried out with full host-country ownership of the reforms, using national systems as much as possible. In addition, initiatives should be developed through a well-coordinated process that integrates multiple donors and the host government. Donors need to make effective coordination mechanisms a high priority from the beginning.

### **How Should It Be Done?**

Donors should begin work in multiple areas immediately and simultaneously, and begin early to build long-term capacity.

***Focus on the basics:*** Economic growth programming should focus on the basics of a functioning economy, with early emphasis on short-term effectiveness in stimulating economic activity and creating jobs, rather than on longer-term economic efficiency. In general, short-term results should trump longer-term payoffs in terms of programming choices. There are no hard-and-fast rules about these trade-offs. Judgment must be applied in every case.

***Establish priorities:*** During the immediate post-conflict period, there may be a narrow window of opportunity to introduce difficult economic reforms. There also may be extreme limits on the government's capacity to implement change. Often, so many changes are needed that donors, working with the host country government, have to set immediate priorities on the basis of what will most quickly and most effectively generate employment and stimulate the economy.

***Understand recurring trade-offs:*** Substantial structural challenges and the ever-present risk of a return to conflict mean that donors need to make decisions quickly, balancing trade-offs that are much more acute than in stable developing countries. Four trade-offs consistently recur:

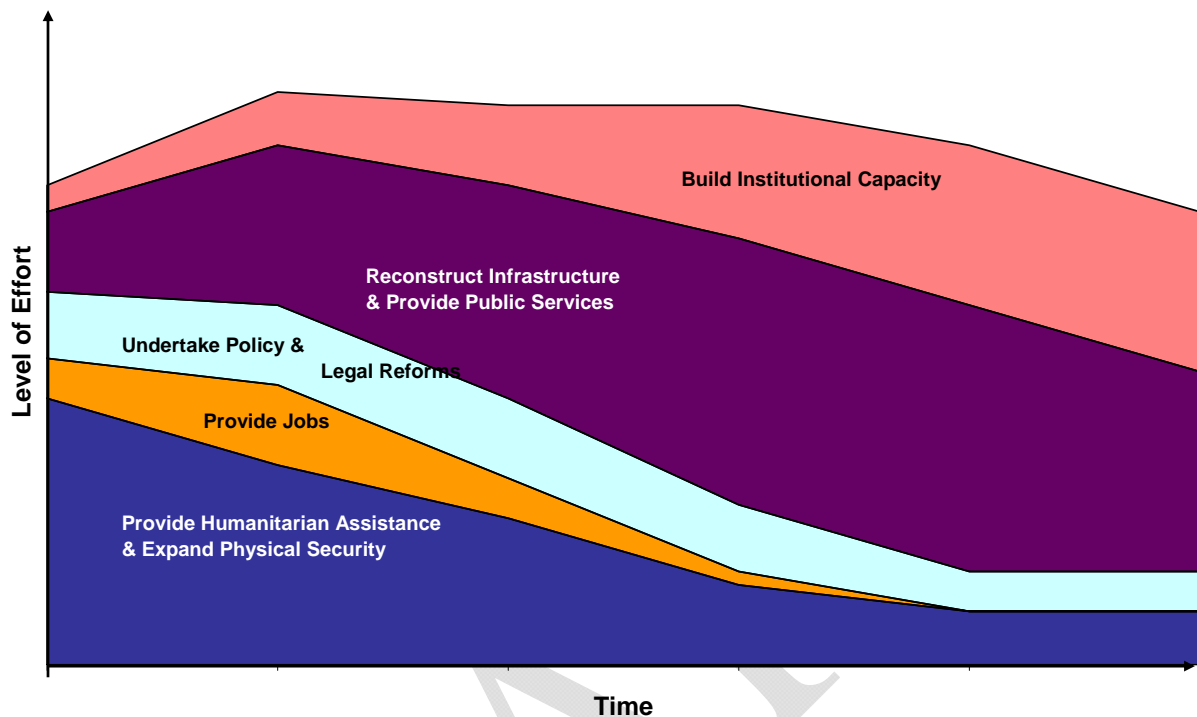
- the need for *effective* economic solutions in the short term while moving toward more *efficient* solutions over time;
- the tension between the need to accomplish tasks *urgently* and (if they bypass local institutions) the effect such actions might have on the government's perceived *legitimacy*;
- the conflicts that can arise between *short-term* and *long-term* objectives; and,
- the desire to use the *window of opportunity* to make dramatic economic reforms immediately after the conflict, contrasted with the very limited *absorptive capacity* of most governments to manage change.



***Pay attention to sequencing:*** The termination of conflict creates an immediate rebound of economic activity, though typically not to pre-conflict levels. Donor and government consumption of local goods and services stimulates broader economic activity. Job-creation programs generate a temporary upsurge in employment and consumption. Donor and government investments in physical and social infrastructure stimulate demand in the short term and support growth in the medium and long term. Regardless of the effectiveness of donor-financed programs in the short run, it is the country's capacity to sustain economic growth that matters most for long-term success.

Donors must work with local government and non-governmental entities to quickly restore the delivery of critical public services. This will almost always require the use of external actors because of the diminished capacity of host-country institutions following a conflict. Donors should seek to associate their activities and the activities of nongovernmental organizations (NGOs) and the contractors they support with the host government in a way that re-establishes its legitimacy. However, donors should avoid “quick-fix” approaches that bypass existing local capacity. Instead, donors should look for opportunities to make use of local resources to begin to rebuild host-country capacity as quickly as possible. A greater role for host-country institutions in delivering services will be one of the most effective ways to re-establish the legitimacy of the host government. Donors and the host government must also communicate clearly and often to the public about what they are doing together to meet the people's needs. These communications should be based on shared objectives and informed by the work of donor-host country coordination mechanisms.

### Post-Conflict: EG Program Emphases



The highly stylized diagram above illustrates how post-conflict economic growth programming can be approached. Early emphasis on providing humanitarian assistance and expanding physical security must be accompanied by programs to provide jobs and critical public services and to reconstruct key economic infrastructure. Rapid growth requires sound economic policies to be established from the very beginning. In the longer term, programs must build up the host country's capacity to elicit the self-sustaining growth of a healthy economy. As results are achieved in the immediate post-conflict period, donors should assess which initiatives should shift from an emphasis on effectiveness and short-term results to a more nearly traditional emphasis on economic efficiency and long-term growth. The types of short-term programs that are appropriate for creating jobs and improving well-being immediately following a conflict cannot and should not be funded in perpetuity by donors. There must be the clear prospect of growth through sustainable, productive, private-sector employment displacing the short-term donor programs. Keep in mind that the patterns shown in the diagram above are purely illustrative; a great deal of flexibility must be built into programs to allow them to respond to rapidly evolving post-conflict circumstances.

Part 2 of the Guide, *Best Practices*, combines the principles set forth in Part 1 noted above with lessons learned from post-conflict experience to suggest best practice interventions in seven key sectors:

- *Chapter V:* Macroeconomic Foundations
  - A. Fiscal Policy and Institutions
  - B. Monetary Policy and Institutions
- *Chapter VI:* Employment Generation
- *Chapter VII:* Infrastructure
- *Chapter VIII:* Private-Sector Development
  - A. Private-Sector Enabling Environment
  - B. Enterprise Development
- *Chapter IX:* Agriculture
- *Chapter X:* Banking and Finance
- *Chapter XI:* International Trade and Border Management

What follows is a discussion of key factors affecting the macroeconomic sustainability of the post-conflict transition and recovery. For a comprehensive discussion of these and other factors, please refer to Chapter V of the Guide.

### **Macroeconomic Foundations**

***Overarching objective: rein in inflation and preserve price stability***

Because inflation—especially at high rates—deters business investment, erodes the value of family savings, and can weaken or stall economic recovery, a central objective of fiscal, monetary, and exchange-rate management is to rein in inflation and preserve price stability. Host governments must regain control over state revenue and expenditures and over the management of monetary and exchange-rate policies. In the post-conflict environment, some basic policy and related institution-building interventions are needed to ensure this control and maintain price stability. These interventions cannot be merely short-term undertakings. “In almost all reconstruction efforts, the task of creating new

[monetary and financial] institutions has turned out to be harder and more time-consuming than expected.”<sup>4</sup>

## A. FISCAL POLICY AND INSTITUTIONS

***Overarching Objective:*** put the host country on a path to greater budgetary self-sufficiency

*High levels of donor assistance, often totaling more than 20 percent of gross domestic product (GDP) during the initial post-conflict years, are not likely to be sustainable in the longer term. To adjust to this external financial reality, the host government must be able to adequately mobilize “own revenue” and soundly manage expenditures.*

The nature and severity of the challenge varies from case to case, but fiscal challenges always loom in post-conflict countries, including lack of skilled cadres, destroyed tax bases, weak organizations and institutions, and massive public spending needs. Expertise among donor teams in developing and implementing thoroughgoing fiscal modernization programs is almost always an urgent need for post-conflict rebuilding programs.

Early in the post-conflict period, the host government’s capacity to collect import duties and excise taxes is usually stronger than its capacity to collect sales and income taxes. For this reason, the most effective strategy may be to maintain an initial structure of broad-based import tariffs coupled with a modest number of excise taxes. In the longer term, economy-wide taxes such as a value-added tax (VAT, the most efficient type of tax for most developing countries) and income taxes are more efficient; the country will need to shift its emphasis accordingly.

In the short term, along with paying attention to fiscal revenues, the authorities and the international community must determine whether the budget process works and whether the administration of public expenditures is operational and effective. Early donor support for budget execution and planning is likely to be required, with an emphasis on creating a single, consolidated set of treasury accounts and establishing an expenditure management system under the auspices of the ministry of finance.

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<sup>4</sup> Stephen Lewarne and David Snelbecker. 2004. “Economic Governance in War Torn Economies: Lessons Learned from the Marshall Plan to the Reconstruction of Iraq.” Report for USAID prepared by The Services Group. [http://pdf.usaid.gov/pdf\\_docs/PDACG436.pdf](http://pdf.usaid.gov/pdf_docs/PDACG436.pdf).


During the early and middle post-conflict years, short-term reliance on revenues from border taxes or other simple taxes (such as excise taxes) is likely to be both necessary and appropriate. There are two important qualifications, however:


- To complement improved policies for the collection of border and excise taxes and the administration thereof, there should be a review of the legacy system for direct taxes, especially corporate income and payroll taxes. Provisions of the direct tax regime may need to be amended or scrapped. This may be likely if the pre-conflict tax regime is highly punitive for law-abiding businesses (as in the Balkans during the 1990s) or if corruption among administrative staff is too difficult to curb.
- Reliance on border taxes does not imply the use of simple or manual methods for assessment and collection. In a number of post-conflict countries, such as Kosovo and Liberia, the use of the internet and other electronic methods to verify, value, and collect import tariffs and other taxes has proven to be feasible and important during the early stages of rebuilding fiscal capacity.


Table V.1 below provides a schematic of how fiscal reforms and capacity building assistance programs might best be introduced, in sequence and intensity, over the post-conflict transition period.

**TABLE V.1 FISCAL POLICY AND INSTITUTIONS  
PRIORITY AND SEQUENCING OF ASSISTANCE**

<i>Item</i>	<i>Urgent</i>	<i>Immediate</i>	<i>Intermediate</i>	<i>Consolidating</i>
Expenditure control				
Receipts management				
Indirect (tariffs, excise, sales) tax control				
Direct (income and payroll) tax control				
Financial control over state-owned enterprises				
Fiscal policy planning and management capacity				
Reform of tax policy				
Economic and fiscal statistics				

 High-intensity level of assistance

 Lower-intensity level of assistance

 No assistance during phase

## B. MONETARY POLICY AND INSTITUTIONS

It now is widely accepted that inflation, especially at high rates, deters business investment and weakens economic growth. In many post-conflict countries, one important early challenge is to overcome inflation (or even hyperinflation) to preserve price stability. A second major challenge is to restore or shore up the currency and payments system, which provides a medium for transactions and store of value for the public.

### ***Overarching Objectives:***

- *help monetary authorities control the money supply and credit growth, in ways consistent with price stability*
- *provide the private economy an efficient and safe system for payments*

The health of banking and of the financial sector is critical to a post-conflict economy's recovery and growth. The country must have the capacity to carry out financial transactions beyond a simple cash and barter economy. To achieve this objective, the government must have the capacity to make payments and the central bank must function effectively. In addition, public and private financial institutions, both formal and informal, must be able to service the financial transaction needs of households and enterprises as they renew their pre-conflict activities or enter new markets.

Donors should help establish a functioning financial sector that provides:

- safety for savings through institutions that are trusted deposit-takers in order for households to safeguard their financial savings; and,
- payment mechanisms or efficient accessible means to pay for goods and services through the formal financial system, in all significant trading centers. Payment mechanisms facilitate the exchange of value required for commerce and enable the government to pay its employees—particularly teachers, health care workers, and police—outside of the capital.

The expansion of lending is a longer-term objective, which takes place as capacity increases in the financial and commercial legal sectors. Experience has shown that the growth of bank credit to the private sector evolves slowly in the post-conflict period. Lending prematurely in an environment that is not conducive to loan recovery and where credit skills are missing can undermine financial sector and economic development by misallocating scarce resources.

In some cases, a central bank and a commercial banking system must be created from scratch. This is necessary when neither a viable central bank nor commercial banking system exists. In Kosovo and Timor-Leste, the International Monetary Fund led the establishment of a Central Payments Office (CPO), managed by expatriate experts, which provided transactional banking services between the private sector and the government and monitored government finances. In both cases, the CPO evolved quickly into a banking and payments authority with a strong local legal foundation and with wide central banking responsibilities, including the licensing and supervision of commercial banks.

A key political issue faced by most governments of post-conflict countries is the need to establish an appropriate degree of policy independence for the central bank. Over the past 50 years, the model of constitutional or statutory independence for the central bank—with a long, secure term of office for the central bank governor—has become accepted around the world. This institutional approach gives the central bank the authority to restrict or limit the government’s access to credit from the banking system, thus curbing this potential key source of inflation.

Some post-conflict countries may wish to replace their old currency with a new one. This type of currency reform can be useful in a variety of ways. It can help restore confidence, show a break with the past, deal with simultaneous circulation of several versions of the national currency, and combat widespread counterfeiting.

Rather than resurrect and manage a national currency, a number of post-conflict states have adopted a strong foreign currency as their *de facto* legal tender. This approach, followed by Timor-Leste (which used the U.S. dollar) and Kosovo (which used the Deutsche mark and later the euro), obviates the need for the central bank to manage the country’s monetary base. It also automatically regulates price inflation.

Retaining a separate national currency gives the central bank potential to manage real exchange rate (RER) developments by intervening in the exchange market. For this reason, it may be a valuable tool. Post-conflict countries, especially small ones where donor flows may constitute a large share of GDP, risk experiencing significant RER appreciation when they receive large amounts of foreign assistance.

The central bank may need to provide temporary licenses to existing commercial banks, even if there are doubts about the banks’ longer term viability. Commercial banks provide the public and the government with critical payments services (*e.g.*, for meeting employee payrolls). In many post-conflict countries, pre-existing private or state-owned commercial banks have networks of branches and facilities that may be able to provide these services. In such a situation, it may be best for the central bank to provide temporary licenses to these existing institutions.

Table V.II below provides a schematic of how monetary policy and capacity building assistance may be implemented over the post-conflict transition period.



**TABLE V.II MONETARY POLICY AND INSTITUTIONS**  
**PRIORITY AND SEQUENCING OF ASSISTANCE**

<i>Item</i>	<i>Urgent</i>	<i>Immediate</i>	<i>Intermediate</i>	<i>Consolidating</i>
Monetary control for price stability				
Exchange-rate management and/or currency reform				
Strengthened interbank and external payments systems				
Licensing of commercial banks				
Strengthened supervision of commercial banks				
Revised banking sector legislation				

	High-intensity level of assistance		Lower-intensity level of assistance		No assistance during phase
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## **Towards Conflict-Sensitive Macroeconomic Growth: Unraveling Challenges for Practitioners**

by

Raymond Gilpin, Ph. D.

This presentation covers recent thinking on sustaining economies. It addresses macro-economics and conflict-sensitive economic growth. We need to address the fragility of economic systems and the impact of the diverse programs interacting within the systems.

The challenges of conflict-sensitive growth involve transformation, not just transition. There are complex layers in a conflict-affected economy: the dying old system and the emerging system of the formal economy, as well as the subsistence sector of the economy. Our goal should be to open the market environment in a complex political economy. We need to focus on the actors, institutions, and activities. We have to think smartly about all layers of the economy, not just the formal sector. Much of the economy lies outside official control.

Interventions should be targeted in a conflict-sensitive way. Who are the actors? Are we targeting the right ones? What institutional structures are there, including parallel economies?

Conflict affected economies are a potpourri of fragility. Their situations are not homogeneous. How do we define the situation in space and time? Differing definitions make coordination among all participating agencies very difficult. It is not just urgency that drives the situation: it unfolds over a period (surprises crop up later). It takes at least a decade to recreate an economy. Outside agencies usually don't have that luxury of time.

Among the challenges is the non-formal economy. In Rwanda post-1994, it was necessary to re-establish security first. To deliver a peace dividend, we must provide people a stake in the peace. In Rwanda, the formal economy had ceased operating. It was necessary at first to ease price controls, lower interest rates, and reinstitute the banking system.

But absorptive capacity is a big issue. A lot of aid goes in to conflict affected countries, but not all can be absorbed quickly. We should look at absorption not as a "how much" issue, but rather how well aid is spent. On what? Reserves? Imports? For aid to be absorbed takes time. We must get the institutions right, with the capacity to deliver. It takes time. Confidence-building takes time. We need to align aid with domestic reality. And we have to integrate the economy with the institutions of the state.

An understanding of four concepts can help unravel the challenges facing the practitioners of stabilization and reconstruction operations. The four are:

- 1) Conflict-sensitive macroeconomic growth,
- 2) Potpourri of fragility,
- 3) Overcoming challenges, and
- 4) Looking ahead.

Practitioners need to know that the way ahead calls for unique interventions. Sustainable economic growth requires acknowledgment that macroeconomic elements provide an important framework for transformation. Practitioners must focus their efforts so they will transform post-conflict economies; not merely engage in the transition to a post-conflict situation since conflict affected economies tend to be dysfunctional, not simply weak. The complex political economies of societies emerging from conflict require targeted interventions so practitioners must have a conflict-sensitive focus on actors, institutions and activities.

#### Special Circumstances

ISSUE	IMPACT
a. Finances Wealth	Livelihoods compromised, savings depleted, income avenues limited.
b. Natural Resources	Pronounced inequality, rights poorly defined, conflict triggers.
c. Human Capital	Weak labor force, brain drain, recruitment/retention challenges.
d. Community Networks	Fragile support networks, need for reconciliation, vulnerable groups.
e. Infrastructure	Destroyed, inefficient networks, technological gaps.

### Pot-Pourri of Fragility

- Fragility not homogenous
- A definitional quandary:
  - Structure
  - Duration
  - Policy mix
- Problems aligning with local reality

### Understanding the Challenges

- Non-formal economies (war, parallel, illegal, informal)
- Institutional and regulatory weakness
- Impunity and corruption
- Human capacity constraints (skills, motivation, retention)
- Absorptive capacity

### Overcoming the Challenges

- Adopting a longer term approach
- Aligning with domestic reality
- Carefully select macroeconomic targets
- Deepening financial institutions
- Enhancing public expenditure management
- Focus on employment creation

## **Panel 2: Micro-Economic Sustainment of Wealth-Creating Society**

Practitioners know that restoring a healthy micro-economic environment is crucial to nation building in the wake of violent conflict. They need to quickly restore pre-conflict livelihoods and expand the local economy to consolidate a fragile peace. How can they expand the economy within the first year of the end of a conflict to ensure transition to a wealth-creating society? What are the long-term efficiency and short-term effectiveness trade-offs of creating jobs, extending micro-credit, or executing other quick-impact measures? How effective have these been in restoring local economies and why? What has been the impact of these measures on security and why?

Dr. Phillip Steffen, agricultural economist, USAID, chaired the panel who addressed these issues. Ms. Rachel Blum of CHF International, the first panelist, described her organization's experience in Haiti regarding *Employment Generation in Post-Conflict Environments: Linking Short- and Long-Term Initiatives*. Mr. David Soroko, of International Relief and Development IRD, the second panelist, described the Community Stabilization Program he managed in Iraq in 2007-2008, and lessons learned for application elsewhere. Mr. Larry Wentz, CNA, followed with a brief presentation on the usefulness of information technology in conflict affected countries.

### **Presentations**

Dr. Steffen, who submitted a PowerPoint presentation for this compendium, encouraged the participants to talk about what to do at the micro level.

1. We have to consider the natures of the conflict and of the peace in each country, as well as the location and duration of the conflict, and the extent of damage to productive infrastructure and resources for rebuilding.
2. We need to identify the stakeholders, such as the legitimate authorities and the local leaders and professional colleagues with whom we can work. How can we encourage the return to the conflict affected country of other trained professionals in the diasporas? We must not forget to include the military intervention force as an "other" stakeholder.
3. In the military context, we have to know where we are in the phasing model—shape, deter, seize initiative, dominate, stabilize, or enable civil authorities. Are civilians supporting—that is, following—the military or are they leading the stabilization and economic growth effort, with the military maintaining a visible presence in the background?

4. We should not neglect agriculture. It supports and enables broad economic growth. Agricultural recovery can spur growth of output in rural areas that benefits the urban areas through lower food prices. We must consider market flows, availability of labor, and the seasonality of recovery options.
5. Considering livelihoods and markets, we need to help to make markets work. People's livelihood options depend on viable, well-performing markets for the exchange of goods and services.
6. This all leads to the issue of security. We need to foster predictability for investments and marketing decisions, facilitate mobility to near and distant markets, and figure out whether the situation requires a military force to prevent or deter conflict or to police an area.
7. We need market solutions whenever possible that depend on local providers of goods and services, thereby generating jobs and adding value locally, rather than on external parallel supply channels.
8. We must convince all stakeholders that peace is built through shared economic interests.

Dr. Steffen said practitioners must earn the trust of the local populace. A particular challenge is working with unsavory local authorities while helping to enlarge the space for civil society. Aid is not neutral: the effect of its provision is a function of to whom, how, and when it is given. Perceptions matter: outsiders may be seen as one-off targets of opportunity rather than committed facilitators of stabilization; overcoming this perception takes time and patience. The timetables of donors and beneficiaries are not the same. Stabilizing an economy and setting its base for economic growth takes time. We should avoid supply-driven solutions from the outside. The local populace needs to be the main supply source. Practitioners need their buy-in, especially that of the people with influence. Above all, we should not weaken local markets.

Ms. Blum, the first of the two panelists, said CHF has operated or been operating in Iraq, Liberia, and other countries. It has been pursuing job creation in Haiti from which CHF has drawn the following lessons.

Initial Step. We practitioners must be clear about objectives. We need to consider what we will leave behind. Rather than hitting the ground running, we must first analyze the situation before initiating a program if it is to succeed. What do we do about household livelihoods? How do we take account of conflict outcomes? Who are the change agents? We need to identify the critical actors in the markets. The biggest firms? They may be too politically-connected. We need to build on existing relationships and pre-conflict

business firms. We need to use existing services rather than set up parallel structures. Getting the answers right need not take much time.

Context. Ms. Blum said we practitioners need to consider the implications of the short- and long-term time-lines of our efforts. Context is especially important. It drives responsibility. In the period toward or right after the end of conflict, practitioners begin the “golden hour,” the period in the medical field when a patient hovers between life and death. In reconstruction efforts, this period is the year immediately following the end of hostilities. In the golden hour, we need to choose effectiveness over efficiency. People need jobs during this period. Livelihoods then depend on the ways that households and markets interact.

Effective Action. The conflict-affected populace needs to feel the beneficial effect of our actions quickly. Practitioners must help them build economic stakes in stability, as CHF has been doing in Haiti. Haiti had for decades received aid with nothing to show for it. CHF had to create jobs and restore public assets.

Jobs, Short- and Long-Term. CHF focused on five cities in Haiti. Creating jobs was the ultimate short- and long-term objective. CHF helped the populace to restore public assets through projects in soil conservation, canal cleaning, reforestation, etc., all of which were labor intensive. CHF looked at gaps in demand and linked them to supply. CHF worked through local training institutions and set up work-study programs. It engaged in entrepreneurial training and micro-finance to facilitate private sector involvement in the projects. The construction sector served as a link for short- to long-term employment. CHF provided support to small contractors rather than the big five in the region.

Local Government. Through the involvement of the local populace in these activities, CHF developed the capability of the local authorities to sustain a base for economic growth. But local governments don’t spring up early in conflict affected environments. It’s very difficult to get them in place. A lot of capacity building is necessary. Local governments need to be reestablished or reinforced to facilitate local decision-making.

Challenges. Immediate outputs overshadow capability-building. How can we find the right balance? The more complex the projects, the fewer jobs created. The number of jobs goes down as infrastructure projects are completed. Some things are beyond our control. Donors are enamored of job creation, but its sustainability depends on private capital. As nongovernmental organizations, we don’t create jobs. We need to define “jobs” better. Are we reaching the right people?

Mr. David Soroko, (IRD), the second panelist, described the Community Stabilization Program (CSP) he directed in Iraq in 2006-2007. The funds appropriated for the program totaled \$700 million. IRD implemented the program for USAID on the basis of a

cooperative agreement. The program began in Baghdad and spread to ten cities. IRD's primary purpose was economic revitalization.

Mr. Soroko said IRD tried to employ as many potential young insurgents as possible through the CSP, but it is debatable whether the program reduced insurgency, in and of itself. IRD made great effort to coordinate and use its resources to maximum effect.

Mr. Soroko said the questions to be answered are: Is focused stabilization possible? Is stabilization possible without coordination?

The main issue was determining how to expand the economy in the first year of the CSP. It began in 2005, the first year of IRD's involvement in Iraq and the third year of the U.S. occupation. Previous U.S. efforts to expand the economy had not lessened insurgency in Iraq. IRD believed it would take two to three years for the CSP to help dampen the insurgency if that was possible.

Mr. Soroko said the CSP was different from the other programs that U.S. agencies had been implementing in Iraq. The CSP aimed to promote short-term employment through various initiatives; such as trash removal, sweeping of streets, artisanal toolkits, micro-grants, youth activities, and business development grants. Forty percent of IRD's CSP resources were devoted to agriculture in Baghdad province. IRD did its programming during the most violent period in contemporary Iraqi history, all of which was meant to draw the youth away from insurgent activity.

Under the U.S. clear, hold, and build strategy, the military would clear an area and the CSP followed. Its implementation was entirely by Iraqis. Twenty Americans and 450 Iraqis, who lived in the targeted communities, ran the program. The CSP began with a "retain" phase involving short-term jobs and only later transitioned to traditional development programming. Unlike long-term employment, all the short-term jobs—such as trash removal, sweeping of streets—were in the public sector. By June 2007, the CSP had generated 34,000 jobs ultimately resulting in 45,000 employment days (*i.e.*: one person multiplied by number of days employed) and violence was reduced.

Was the impact of the CSP greater stability or the reverse? Some critics of the program at some of the provincial reconstruction teams, who reflected a government perspective, said IRD was "doing what the government should do." Mr. Soroko said an example was the IRD's placing of trash collectors every 100 meters or so along particular streets to ensure they were clean. The critics also charged that the Mahdi Militia—the political-military groups orchestrated by imam Moqtada Al Sadr, the Iraqi nemesis of the U.S. armed forces during this time—benefited from CSP funding, supplemented it with the brigades' own resources such as blankets, and then claimed credit for the CSP actions.



The CSP program was phased down by May 2008. It is no longer being implemented in Kadhemiya, the district of Baghdad in which IRD engaged in its most intensive effort. In the mixed Shia and Kurdish district of Al-Sadriyah near central Baghdad, where at least 112 Iraqis were killed and another 115 wounded in a car bombing on 17 April 2007, IRD moved quickly to re-establish the Sadriya Market after it was bombed. Through 190 grants, IRD got the market back up once it was walled off, and it has not been bombed since.

Mr. Soroko concluded that the CSP was effective. Violence dropped. While many variables may have accounted for this, one of them was the quality of military-civilian coordination and cohesion, which was exceptionally good.

### **Plenary Discussion**

Dr. Steffen said the options for practitioners are creating jobs immediately for much of the populace or preparing people for later careers. He believes we must create jobs, even if make-work, during the golden hour. The goal must be immediate employment. Grants help.

Mr. Soroko added that IRD made micro-grants of \$65,000-70,000 through the CSP, but they distorted markets. They crowded out supplier credit. Grantees could also have gotten better borrowing terms commercially. But CSP grants did perform a vital function: they helped to stabilize communities. Through such grants, IRD put businesses back on their feet and revived confidence.

Ms. Blum said CHF created employment on three tracks in Haiti: (1) make-work to get people off the streets, (2) new jobs in established industries, and (3) entrepreneurship. There was great scope for all three since the informal economy is huge. While CHF preferred to work through existing lending institutions rather than to provide grants, doing so was not always possible. The grants that CHF made were essentially subsidies. In such situations, the problem then becomes how to minimize distortions and wean grantees off aid.

Ms. Borany Penh, of USAID, said our idea of jobs is a Western concept. Is employment different, she asked? How should we look at the competition for labor of insurgents paying people to lay improvised explosive devices or to participate in an insurgency? Ms. Penh said we practitioners do not have the framework to understand all this. She has concluded that “you can’t do development in the midst of an insurgency.”

Mr. Soroko replied that the tipping point in monthly incomes for persons participating in the CSP was \$220-260 a month. In the aggregate the reduction of violence was evident, but here and there the perspective was sometimes different.

David Dunn, USAID, said we learned after the extensive evaluation of a multi-year job creation program in Liberia that short-term jobs and vocational training don't lead to long-term job sustainment. Consequently, USAID stopped the program after three years. The U.S. programs in Iraq have been going on for six years. When do we transition to higher-level development?

Ms. Blum replied that CHF recognized that Haitians could not clean canals forever. A problem is that donors can be too results-driven. They are too little interested in the long term. The more money there is for projects, the shorter is the period during which efforts are sustained. After a while, the donors want out. What must we do to ensure that short-term efforts are in synch with long-term development needs? Over time, practitioners do build trust in communities. It does improve the security of staff, who can then more effectively and efficiently promote sustainable development.

Dr. Rozlyn Engle, professor at the U.S. Military Academy, said many officers at West Point had recently served in Iraq. We all need a stronger feel for the transition from conflict to stabilization. The U.S. military created many jobs, but in and of itself this did not stabilize the situation. Is stabilization a precondition for economic growth? West Point instructors and students need to know. Is the private sector competing with the military on the jobs front? Do we know what difference CSP made in areas where the program was being implemented, but the military surge was not? How have we established rule of law for businesses in conflict affected countries? What should the U.S. military do to lay the groundwork for success?

Mr. Soroko replied that he does not know whether stabilization or economic revitalization comes first or if they proceed concurrently. The CSP was part of the military surge. It was in the cities always concurrent with the surge. The CSP was viewed as a counterinsurgency tool. IRD learned many lessons implementing the CSP, which IRD passed on to the brigades. Although IRD often tried unsuccessfully to find out what our forces were doing in areas where the CSP was being implemented, IRD could see that the host communities were providing more intelligence to our troops than the populace had before the surge.

Mr. Soroko asked how are practitioners to know when to let go, to transition their programs to the local populace? The only clear indication he has seen is when Congress cuts program funding or locally-hired staff leave for better jobs. How can we plan for that, he asked?

Ms. Blum responded that CHF took care not to crowd out private sector employment. CHF brokered vocational training for many Haitians in response to the Hope Act for the Haitian textile industry (HR 6406, a comprehensive trade package that Congress enacted in 2006 and that has great potential to create tens of thousands of new jobs in the Haitian

textile industry). Ms. Blum said CHF got proposals every day. Its matches with the private sector were very successful. However, while practitioners should not implement only public works projects to reactivate economic growth, private-public sector partnerships could not have happened in the initial phase of CHF's operations. Now, the private sector is interested.

### **Information Technology (IT) in Post-Conflict Countries**

Mr. Wentz said IT is an enabler for the better in conflict affected countries. It is a sector of its own and the benefits it generates help all other institutions and people, such as when it connects hospitals to medical teams in the field. IT is part of the foundation of economic growth, he said.

IT is a sector enabler—for the security forces, the civilian agencies of the central government, the populace at large, and especially for persons central to the economy, health, and education. IT ties capitals together. Hospitals can more easily maintain patient records with IT. Khost University has no local area network, but the NGO next door has one and university personnel occasionally communicate through it. IT facilitates the electronic transfer of funds. This reduces the flow of cash transfers, an inefficient way to conduct financial transactions. IT also makes text messaging possible. IT creates jobs in sales and repairs. Four cell phone providers operate in Afghanistan. Some 60,000 people are employed in this sector in Afghanistan.

For all the benefits IT provides, we have not found good metrics to assess its contributions. We have only inputs, like the number of cell phones in a country. We would like to know how IT helps to provide skills and to build institutional capabilities. It is finding its way into schools. IT has become a lifeline for nearly everyone. We need to inform the public about this.

The Government of Afghanistan has taken to IT and has a good minister in charge of the sector. He has nurtured a good public-private partnership. While Afghanistan has laws and regulations, the private sector firms are essentially on their own. The regulations are not rigidly enforced. Meanwhile, the IT network is developing, however fragile it may be. In the immediate aftermath of conflict, donors should enable IT operators, even if it means condoning laissez-faire as is evident in Afghanistan.

# Stabilization and Economic Growth: The Way Ahead

## Microeconomic Sustainability of Wealth Creating Society

Broad Considerations

by

Philip Steffen

Agricultural Recovery Advisor, USAID/EGAT/AG

November 12, 2008

## Primary Post-Conflict Problems

Decline in aggregate economic output and contribution to GDP

- Return of many displaced people
- Loss of skilled labor, damage or destruction of productive assets
- Damage or destruction of public infrastructure
- Breakdown in financial services and access to capital
- Sluggish commercial activity

## What Needs Doing?

Following a conflict, it is necessary to

- move from dependence on food relief to independent food security,
- revive markets,
- put economic systems back into production quickly,
- rebuild businesses to generate inputs and outputs along the value chain, and
- improve local social networks to provide safety nets for vulnerable groups.

## Understanding the Conflict Context

Understand the local conflict context.

- Know the characteristics and outcomes.
- Assess the social dimensions.
- Consider other actors and agencies.

Once the context is understood:

- engage stakeholders to define recovery options and efforts,
- align interventions with local priorities, plans, and capacities, and
- use and build on existing systems.

## In the Military Context

Where are we on the phasing model?

- Shape, deter, seize initiative, dominate, stabilize, enable civil authority?
- Clear, hold, build?

The roles of the military and civilian agencies are inversely related:

- in the lead (supported by civilians) or following (supporting civilians).

The military can support the civilian agencies (stay in the background but maintain a presence) when there is less concern about

- speed (the activity is not necessarily urgent), and
- clarity (some ambiguity is acceptable).

And when there is time for a demand-driven approach (doing things according to local preferences, labor and materials).

## Don't Neglect Agriculture

Agriculture is central to rural livelihoods:

- comprises typically 30 percent of GDP and 65 percent of the workforce,
- provides livelihoods, generates income, and reduces poverty,
- absorbs displaced populations quickly,
- expands access to food,
- adds value to basic agricultural products, and
- broad-based economic growth requires agricultural growth.

## Take Seasonality into Account

Seasonality

- is location specific and predictable,
- dominates the choice, rhythm and sustainability of rural livelihoods, and
- dictates the sequence of market flows and value chains.

Seasonality

- can exert a positive influence on the pace of post-conflict recovery

## Assess Impact on Livelihoods, Markets

Rural households choose livelihoods that meet their food security and other needs during the year.

- Livelihood choices depend, above all, on access to markets.
- Most households are willing to specialize, provided that they have reliable opportunities to buy, sell, and exchange their products or labor.

Well-performing markets can have a positive impact on rural livelihoods.

## Security is Paramount

To function well, post-conflict markets require security, predictability, mobility.

Without these, most commercial activity will be limited to short distances among people who know and trust each other.

Conditions determine whether a military or police presence is required, based on lines of command, responsibilities, and accountabilities.

## Use Market-Oriented Solutions

Build on humanitarian relief efforts, but

- correct non-market programming distortions, and
- avoid supply-driven interventions

Restructure projects and programs for them to be market oriented and motivate local vendors of goods and services instead of setting up parallel relief supply channels.

- Move towards full cost-recovery.
- Phase out relief as soon as possible.

Integrate the markets in conflict areas with the broader markets outside the former conflict zone.

- Give adversaries an economic stake in mutual cooperation.
- Shift from contention, weak trust and quick, predatory pricing to cooperation, improved trust, and longer-term investments.
- Keep in mind such areas may need a lot of market development assistance.

Find ways to raise the opportunity costs of conflict (potential losses from conflict), especially when buyers see conflict behavior as negative.

## Know Your Communities

Understand the local social landscape to determine:

- Who's who? Who does what? Who makes things happen?
- Understand the nexus of economics and politics.

Nurture local relationships. Earn trust. Stay around longer to help make things work.

A particular challenge for outsiders is working with unsavory local authorities.

- Enlarge the space for civil society reformers to participate in economic recovery decisions.

## Invest in Local Peace

Be aware that aid is not neutral. It can divide or connect people, widen or lessen divisions.

How aid and stabilization agencies work sends implicit ethical messages.

Details of aid programs—what, why, who, by whom, when, where, and how—matter.

There are always ways to eliminate activity having negative impact or to improve positive contributions to peace.

## Perceptions Matter

Perceptions are powerful instruments in a stabilization environment.

- Outsiders are often seen as a target of opportunity, the source of goodies.
- Local realities are shaped by perceptions of inclusion and exclusion.

Recovery programs must be simple, pragmatic, and quickly make a difference to reestablish effectiveness and legitimacy.

## Our Timescales Are Not Theirs

Avoid the urge to use the military solely to get things done “better and faster.”

Physical reconstruction or the provision of essential services should be carried out using local goods and providers, paying local market rates for them.

Accept that this approach will take longer. Consult local leaders. Hire local contractors and labor. This will ensure local buy-in.

Use specialized military equipment and technical expertise, if necessary, selectively and sparingly.

## Protect Local Livelihoods

Don’t undermine the livelihoods of the local population and the markets on which they depend by having the military do things that the local populace can do, with outside funding if necessary.

Keep otherwise underemployed or idle people engaged.

Don’t risk turning acts of good will into feelings of resentment by undermining local livelihoods.

Avoid external, supply-driven approaches to development and reconstruction in the rush to “get things done.”

Adopt a demand-driven approach based on the assessment of local needs and capabilities, market conditions, willingness to pay for goods and services, and follow-on maintenance costs, as necessary.

Empower communities to do things for themselves—perhaps not as well or as quickly as the military, but good enough for the objective at hand.



## Timing and Sequencing

Sequencing versus simultaneous actions:

- Capacity development and governance programs need to begin early, even in post-conflict settings (low income countries under stress).
- Economic policy programming should be started without waiting for complete stabilization.
- Institutional development is a prerequisite for economic development.

Accept short-term investment imbalances between geographic areas and economic sectors, but

- avoid extreme imbalances that favor one area or sector (aid darlings) over another (aid orphans), and
- factor social and political-economic dimensions into recovery options.

Move fast, but stay committed.

- Provide quick, visible benefits of recovery during a post-crisis period of high expectations.
- Act fast ... but stay long enough to give success a chance.

Transfer most aid during the middle of the post-conflict decade to coincide with the period of greatest effectiveness and absorptive capacity.

Economic growth, nurtured with well-timed aid and policy reforms, can help prevent relapse into conflict.

## Assess Impact Regularly

Establish a baseline of stabilization and choose the right economic growth indicators.

Consult broadly with stake holders.

Monitor and report developments regularly.

- Analyze effects or outcomes.
- Understand them.
- Disseminate findings widely.

## Begin with an Exit Strategy in Mind

Start with a phase-out or hand-over plan; modify as necessary.

Use realistic timetables and consider the prerequisites to build effective local capacity.

Plan for eventual cost recovery.

## Conclusions

Stabilization and economic growth is more complex and difficult to achieve in post-conflict environments than in normal circumstances.

- Stabilization and recovery programs in immediate post-conflict settings must be simple, pragmatic, and quickly make a difference.
- Lay the foundations for medium- and long-term growth during the short-term emergency and relief phase.
- Programs must be flexible and innovative because of contextual complexities.

Successful recovery programs require

- a minimum of peace and security,
- basic institutions of economic governance, and
- forward-looking leadership and qualified technical management.

Recovery programs should

- be simple and flexible to accommodate redesign,
- offer an overlapping array of goods and services,
- monitor impact often,
- be time-sensitive,
- stimulate local markets,
- restore existing infrastructure before inducing new investment, and
- consider incidence, especially on women.

Finally, does the recovery program:

- Remedy the cause of conflict?
- Give ex-adversaries a stake in the peace?
- Help resume normal development in the long run?

# EMPLOYMENT GENERATION IN POST-CONFLICT ENVIRONMENTS: LINKING SHORT- AND LONG-TERM INITIATIVES

by

Rachel Blum and Jerome Lebleu, CHF International

## **Introduction**

The ability of a country to recover from a sudden or protracted conflict is largely shaped by its ability to stimulate economic growth over the short and long term. Donors, practitioners, and policymakers agree that “sustainable economic growth has the potential to mitigate the emergence and re-emergence of conflict and stabilize conflict-prone societies.”<sup>1</sup> The phrase “golden hour” has been described by the U.S. Institute of Peace as that period, usually one year after the cessation of hostilities, “when the international community and the affected country can act either to lay a foundation for a full recovery from conflict or to set the path for a recurrence of fighting.”<sup>2</sup> CHF International’s own work points to the important role of economic actors who have a stake in stability during this period and the prospects that a more stable environment opens to them.<sup>3</sup>

Several types of responses can set the course for economic stabilization. This paper focuses on employment generation immediately following protracted conflict. Our purpose is to illustrate best practices to create jobs, highlighting the importance of linking short-term efforts that seek immediate results with longer-term action that sets a foundation for sustainable development. In this regard, practitioners have long recognized the delicate balance between short-term stimuli and the longer-term need to improve labor market efficiency to sustain private-sector employment.<sup>4</sup>

To illustrate these practices, we describe a case study from Haiti, where the U.S. Agency for International Development and CHF International, in cooperation with international and Haitian partners, are implementing an \$87 million employment generation program employing over 100,000 youth at risk in five urban centers. This four-year program

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<sup>1</sup> Sapterstein, Adina and Ruth Campbell. *Accelerating the Transition from Conflict to Sustainable Growth: Value Chain Development in Conflict-Affected Environments. Literature Review*. Prepared on behalf of USAID’s Accelerated Microenterprise Advancement Project (May 2007).

<sup>2</sup> Mendelson-Forman, Johanna and Merriam Mashatt, *Employment Generation and Economic Development in Stabilization and Reconstruction Operations*. USIP (March 2007). In medical terms, “golden hour” refers to the state of patients following severe injury, where chances of survival are greatest if they receive care within the first hour following the trauma.

<sup>3</sup> CHF International *Stable Society Study, Economic Civil Society Organizations*

<sup>4</sup> USAID/EGAT, *A Guide to Economic Growth in Post-Conflict Countries*, (Oct 4, 2007)

began in November 2006, months after the election of President René Préval and the January 2006 UN offensive in Cité Soleil and subsequent raids nationwide, in which leading gang members were killed, imprisoned, or forced out of the country. The long-term outcome of this program remains uncertain because the immediate palpable improvement in security in early 2007<sup>5</sup> has since fluctuated to include bouts of insecurity, most notably the 2008 food riots that erupted in several cities in response to rising food prices.

In fact, a July 2007 report by the International Crisis Group states that “the improved security environment has not solved poverty, urban violence or lack of progress on disarmament.”<sup>6</sup> Data collected in 2006 shows that 61 percent of Haiti’s population is below the age of twenty-four, 24 percent of the total being between fifteen and twenty-four years of age.<sup>7</sup> The unemployment rate of persons between the ages of 15 to 24 is estimated to be three times greater than for persons 35 to 44 years of age. Not surprisingly, a report conducted by the International Crisis Group in 2006 found that many disadvantaged young Haitian men (and increasingly young women), who have few legitimate opportunities for advancement, consider gang culture the one viable alternative for socio-economic integration.<sup>8</sup> Compounding the threat of gangs and their illicit activity is growing urbanization. As rural areas continue to offer fewer opportunities for sustainable livelihoods, Haitians are flocking to urban centers and overcrowding already dangerous and economically depressed slum areas. In 2003, forty percent of Haitians lived in urban areas, up from 25 percent in 1982.<sup>9</sup>

Against this backdrop, the U.S. Government and other bilateral and multilateral agencies have been supporting the Government of Haiti through donor assistance that aims to mitigate the potential for conflict, to revitalize the public asset based through infrastructure reconstruction, and to create jobs. During March 2006 to September 2007, \$965 million had been disbursed to address humanitarian needs.<sup>10</sup> Infrastructure investment in Haiti has increased 176 percent since 1995.<sup>11</sup> Most of this investment has

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<sup>5</sup> “U.N. Troops Fight Haiti Gangs One Street at a Time”

<sup>6</sup> “Consolidating Stability in Haiti,” International Crisis Group, Latin America/Caribbean Report, N°21 (18 July 2007).

<sup>7</sup> “Haiti Conflict Assessment.” Prepared by USAID/Haiti, June 2006.

<sup>8</sup> “Haiti: Security and Reintegration of the State.” International Crisis Group. Latin America/Caribbean Briefing No. 12, Port-au-Prince/Brussels, 30 October 2006.

<sup>9</sup> “Social Resilience and State Fragility in Haiti”

<sup>10</sup> *Bureau of Western Hemisphere Affairs*: “Background Note: Haiti”

<sup>11</sup> “Reversal of fortune. (Haiti's economy)” (2007)

been provided by multilateral and international organizations (around 95 percent according to the World Bank).

### **Identifying Best Practices**

This level of infrastructure investment in Haiti reinforces the presumption that “the condition of infrastructure is often a barometer of whether a society will slip further into violence or make a peaceful transition out of the conflict cycle.”<sup>12</sup> Infrastructure often represents the sector with the greatest potential for rapid growth, including the creation of jobs, immediately following protracted conflict. Infrastructure is thus an important channel through which to generate employment.

Our challenge is to better understand how to implement job creation programs that meet immediate stabilization needs while laying the foundation for longer-term economic growth. Much literature demonstrates the scarcity of “concrete, applicable tools, methodologies and guidelines to help relief and development practitioners design and implement interventions that build steadily towards sustainable economic growth, beginning in the transitional and immediate post-conflict phases.”<sup>13</sup> Several lessons nevertheless have been learned from the work of international donors and practitioners, as summarized in the following paragraphs.

Two critical considerations that define and drive an appropriate microeconomic response in conflict-affected environments is the understanding and benchmarking of the larger social, political, and economic context. Several studies demonstrate that the nature of interventions in a conflict affected setting are largely determined by the stage of conflict in the country targeted—be it pre-conflict, acute crisis, or post-conflict—as well as by the stage of livelihood or economic deterioration.<sup>14</sup> Such stages of conflict can be framed using a causal model.<sup>15</sup> Within this

#### **Identifying Desired Outcomes of Stabilization Efforts**

Understanding a country's social, political, and economic context is an important first step in designing and implementing a post-conflict economic recovery and stabilization program. A micro-economic response may focus on one or several of the following desired outcomes:

- Build economic stakes in stability:
  - Generate trust/ faith in new political systems
  - Stimulate productive activity among disaffected youth/ urban populations
  - Reintegrate ex-combatants
- Revitalize infrastructure supporting economic activity
- Inject capital into economy
- Create more favorable climate for investment
- Restore livelihoods/ assets, particularly among vulnerable groups

<sup>12</sup> Mashatt, Merriam, and Major General Daniel Long and James Crum, *Conflict-Sensitive Approach to Infrastructure Development*, USIP (January 2008).

<sup>13</sup> Saperstein and Campbell.

<sup>14</sup> See USAID *Livelihoods*; The SEEP Network; Saperstein & Campbell.

<sup>15</sup> Woller, Gary and Jeanne Downing. *Developing A Causal Model for Private Sector Development Programs*. Woller & Associates; USAID: Impact Assessment Primer Series Publication #4 (2007). [www.microlinks.org](http://www.microlinks.org)

framework, the context of a situation determines a program's ultimate goal, which then leads to desired objectives or outcomes and ultimately the design of specific interventions.

Most post-conflict economic programs seek to increase household incomes, boost revenues among enterprises, or generate jobs or enhance employment among a target population. Common interventions may include cash-for-work through the rehabilitation of public assets; workforce development and job training through local training providers; value chain development in agriculture and manufacturing; development of local business service providers to support the growth of micro, small, and medium enterprises; and strengthening of financial services through microfinance institutions and commercial banks.

In the Haiti context, the aim of USAID and CHF has been to support the Préval administration's stabilization efforts by stimulating immediate employment in five target cities as a means to mitigate violent conflict and by laying the foundation for long-term jobs and institution building. It was important that CHF's program not only implement projects with visible results, but that it do so in a way affecting long-term progress.

Program design must be grounded in sound analysis. USAID's Office of Conflict Management and Mitigation emphasizes the importance of a baseline assessment to identify the "essential components that make up the livelihoods of a particular group during a 'normal' time, including a review of historical market data, interviews with civilians including private sector actors, as well as marginalized groups."<sup>16</sup> General economic mapping, market assessments, reviews of household economies, and a comprehensive look at industries and specific value chains may inform opportunities where there is high potential for growth and employment. Through its Accelerated Microenterprise Advancement Program, USAID is documenting the use and applicability of the value chain approach in conflict-affected environments.<sup>17</sup> The findings show a definite orientation toward making conflict analysis a necessary step in the design and implementation of recovery and economic growth programs.

Several other best practices have been widely accepted by economic development practitioners working in conflict-affected areas. A recent panel discussion at the Small Enterprise Education and Promotion (SEEP) Network Annual Conference<sup>18</sup> highlighted

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<sup>16</sup> USAID *Livelihoods...*, 9.

<sup>17</sup> See ACDI/VOCA; Saperstein & Campbell; <http://www.microlinks.org>

<sup>18</sup> "Market Development Mitigating Conflict: How Can We Be a Part of the Solution?" Arlington, VA: *Powering Connections: SEEP Annual Conference 2008*, Panel presentation delivered by: Borys Chinchilla,

many such lessons, such as the need to focus on the rebuilding of pre-conflict business firms. Also recommended was paying greater attention to end-market buyers and demand trends, which will pave the way for successful, long-term economic development.

Successful microeconomic programs typically focus on strengthening existing relationships within the private sector rather than attempting to forge new ones between conflicting groups. Multiple stakeholders (private sector, public sector, and civil society) should be involved at varying levels of such programs to ensure transparent and inclusive decision-making. The programs must acknowledge the key “change agents” within the economic sphere—those who have enough influence to impact change, but are not entrenched in the *status quo* or have an economic or political interest in instability. Development assistance should be channeled through existing service providers—commercial banks, microfinance institutions, local consulting firms, and non-governmental organizations—rather than through new service delivery entities to minimize dependencies on foreign assistance. The interventions should be commercially viable and reflect a clear exit strategy.<sup>19</sup>

### **Case Study**

CHF’s KATA program in Haiti is a ground breaking bottom-up program that is transforming the lives of thousands of Haitians. (KATA or “Konbit Ak Tet Ansanm” signifies drumbeat in Haitian Creole.) It is a four-year \$87 million dollar program financed by USAID and is focused on the five cities of Petit Goave, Port au Prince, Saint Marc, Gonaives, and Cap Haitien.

KATA is based on the principle of the local populace working together to achieve a common goal. The program depends on the engagement and collaboration of all its partners: all levels of the Haitian government, the informal and formal private sectors, and the local communities that are at the core of the program. Together, these stakeholders identify, prioritize, and implement job creation projects. Like a Haitian drumbeat, KATA symbolizes the positive rhythm of change the program is bringing to Haiti.

Two years into its implementation, KATA is a fascinating case study because of its ambitious scope and comprehensive approach to economic development and stabilization. Its overarching goal is to advance stability by stimulating employment and

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Mercy Corps; Diana Klein, International Alert; Ruth Campbell, ACDI/VOCA; and Sarah Ward, Mercy Corps (November 6, 2008).

<sup>19</sup> See [www.microlinks.org](http://www.microlinks.org) for publications highlighting economic and enterprise development best practices in conflict-affected environments.

supporting sustainable livelihoods in highly volatile areas. Since November 2006, the program has sought to achieve this goal by generating short-term employment through the implementation of community-identified infrastructure projects; integrating local capacity building into project design; and providing to Haitian youth workforce development services targeted toward sectors in need of skilled labor.

### Infrastructure

The KATA program was designed to support immediately the efforts of the Government of Haiti and of the UN Peacekeeping Mission in Haiti. CHF's infrastructure improvement initiatives combine direct implementation with sub-contracting to qualified Haitian firms whenever possible. The proportion of sub-contracts to direct implementation is rising as the program progresses. In its application of a value chain approach to the rehabilitation of the public asset base, CHF has set up mechanisms to improve the competitiveness of Haitian construction firms by helping them build their capacity to respond to bids, prepare realistic budgets, uphold quality standards, and maintain transparency in performance. Whether implemented directly or through sub-contracting, the program draws upon the knowledge of local organizations and of its own employment officers to ensure that local labor is involved whenever possible and that most of the intended beneficiaries participating in it are highly vulnerable persons.

### Capacity Building

A defining feature of the KATA program design is the integration of capacity building in the infrastructure projects mentioned above. This approach is driven by the idea that making program investments sustainable beyond the implementation period requires effective government participation, demand-driven community consultation, and leveraging of private sector interests. To do this, the KATA program relies on steering or KATA committees composed of 15 to 20 community and private sector leaders and government officials from a given urban or peri-urban center who identify core priorities and propose projects keyed to these priorities. To encourage local monitoring of these projects, project working groups comprising steering committee members directly related to the projects and residents or leaders of the affected community conduct thorough project assessments before final approval of the projects.

The KATA committees provide on-site training to members, who must as a group design and implement a strategy to achieve their goals. To encourage government participation and to strengthen the sustainability of projects, the KATA program provides the government a formalized role in local institution capacity building by its helping to develop the basic project management skills of at least 75 local government officials. This local government capacity-building component is provided primarily through



technical assistance in operations and maintenance of government projects, as well as participatory decision-making and transparency in reporting.

### Workforce Development

The KATA program's focus on improving Haiti's stability through short-term employment is complemented by a concurrent emphasis on creating sustainable skilled jobs through workforce development. CHF conducted a workforce gap analysis at the start of the program that identified labor market trends and the specific positions and skills required by employers in each of the geographic target areas; assessed the knowledge, skills, and abilities within the program's target groups; and identified long-term employment opportunities that ensure a living wage. Having identified priority intervention areas, CHF provides the following services to qualifying participants:

- Career preparation: Analysis of an individual's skill level based upon interest inventory and skills analysis;
- Career development: Academic, vocational, and livelihood skills training;
- Career transition: Eighty percent of time devoted to practical work and twenty percent to improvement of employment or entrepreneurial skills; and,
- Post-employment support: Tracking of program graduates during six months to ensure job satisfaction of graduates and employers, and analysis of data collected to determine effectiveness of training programs.

Private sector demand is key to success of the workforce development initiative. The KATA program has formed local business councils in each geographic target area to focus on priorities and strategies to develop a workforce that meets market demands. The business community members are selected based on their leadership potential, commitment to the program objectives, and willingness to provide apprenticeships and long-term employment to appropriately-skilled highly vulnerable people.

KATA has much potential to link short- and long-term employment within the construction sector. The program administrators performed an analysis of the public infrastructure value chain to determine how the program could channel its interventions not only to create jobs but also to stimulate competitiveness in the sector. Among strategies being pursued are the provision of assistance to small and medium contracting firms for them to compete against larger firms, skills training to master craftsmen and

lesser-skilled laborers, and support to construction trade associations for them to address the legal, regulatory, and financial barriers to competition.<sup>20</sup>

### Facilitating Private Sector Investment and Market Linkages

Placing vocational training graduates in long-term jobs outside the public sector necessitates simultaneous support to the Haiti private sector. The KATA program seeks to accomplish this by promoting micro, small, and medium enterprise (MSME) growth, establishing market linkages between and among local and international enterprises, and by facilitating access to capital. The program is taking advantage of opportunities created by the Haitian Hemispheric Opportunity through Partnership Encouragement (HOPE) Act, which allows duty-free entry into the United States of garments assembled from fabric originating in the United States. The program may facilitate linkages between MSMEs and larger textile firms, both domestic and international, and may induce co-investments generating more employment of KATA target beneficiaries.

A final measure of KATA support to the Haitian private sector is access to capital. The program addresses this need by disseminating information on credit programs throughout the target area; by sponsoring microfinance credit fairs; and by helping technical assistance providers to work one on one with entrepreneurs for them to understand the loan process and put together credit applications. The program is building relationships with microfinance institutions like Fonkoze Financial Services and Sogesol to present to them SME program-affiliated loan applications.

### KATA Challenges, Trade-offs, and Recommendations

After encountering obstacles, the KAPA program has adapted its approach to maximize operational efficiency.

A major challenge had been management of competing demands between realizing immediate outputs and long-term development objectives. KATA is meant to provide immediate short-term livelihood benefits to Haitian citizens; however, the rush to implement projects in the first few months came at the expense of setting up operating systems in synch with longer-term program goals. Payroll systems that facilitate project implementation were given greater priority than capacity building initiatives that help to ensure project sustainability, but slow project implementation. The reason may be that while operation and maintenance plans are vital to project sustainability, they are difficult and time-consuming to design and implement, and thus slow the execution of projects. Moreover, capacity building, while in line with peace and security objectives, does not necessarily generate long-term jobs and thus tends to be a supplementary activity within

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<sup>20</sup> Blum, Rachel, Tracy Gerstle and David Angeles. *Tools for Market-Integrated Relief: Haiti's Construction Sector*. USAID microReport #93 (2008).

the overall program framework. The trade-off between two critical project criteria—effectiveness versus efficiency<sup>21</sup>—has made it difficult for KATA to ensure optimal outcome of both rapid and thorough implementation.

The urgency of the program at the initial stage required an intense focus on the execution of projects centered on the primary driver of short-term stability, namely short-term jobs. While this was a necessary focus, programs like KATA must nonetheless be designed in a way that guards against their becoming too narrowly centered on achieving a series of projects to the detriment of the larger strategic objective. The program design should reflect a compartmentalized approach to short-term and long-term job creation and recognition that long-term jobs require substantial investment of time, effort, and staff resources before they materialize.

Another challenging trade-off arises from the very nature of infrastructure projects to be implemented. Program staff discovered early on that restoration of the most complex “economic” infrastructure in Haiti required heavy machinery and so was not labor-intensive enough to meet short-term job targets. While projects like market access road construction corresponded to the long-term job creation goals of the program, the projects were lower priority than other projects that created more short-term employment. As other practitioners have noted, CHF’s experience with infrastructure projects confirms a common short- versus long-term trade-off when implementing employment generation programs:

*Many of the jobs offered through transitional employment programs are not likely to lead to future employment; they may only provide on-the-job training and income for a short period. Nonetheless, this may be sufficient if opportunities for other types of jobs begin to appear as the economy revives.*<sup>22</sup>

After focusing on public works employment for two years, KATA is emphasizing private sector employment and investment and the market linkage initiatives described above. The shift has not been easy.

One critical challenge that CHF has faced not only in Haiti but in other conflict-affected environments as well has been unrealistic donor expectations regarding job creation. CHF has concluded that setting the foundation for better long-term jobs (by KATA’s beneficiaries earning more income in their actual jobs or transitioning from part- to full-time employment) is more realistic than creating new long-term jobs, which programs like KATA cannot be expected to create out of thin air. Creating such jobs depends on macroeconomic factors and business opportunities external to the program. KATA is

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<sup>21</sup> USAID/EGAT *A Guide to Economic Growth...*, p. 36.

<sup>22</sup> Ibid.

thus taking advantage of investments engendered by the HOPE II bill. That being said, many of KATA's workforce development graduates are back in the labor force with better jobs and larger salaries. KATA projects in construction and repair of irrigation canals have improved the yields and revenue of many farmers.

The payoff of CHF's early efforts to work with the private sector to create long-term jobs developed slowly. CHF found that private entrepreneurs in a conflict-affected area like Haiti in 2006 narrowly focus on ways to revitalize and grow their core business operations, and need time to warm up to ideas such as partnering with a non-governmental organization like CHF. Since KATA was not intended as a private sector development program *per se* and its activities were not originally structured to pay much attention to the building of relationships with private sector actors, this fact should be reflected in programs that aim to catalyze jobs in the private sector. The prospective role of the private sector must be reflected up front in program design and analysis, due diligence, and outreach to private business firms, as well as the staffing requirements required to develop and maintain relationships with the private sector.

CHF, like all other development actors, has also suffered setbacks in Haiti caused by events that have recently shaken the country. The volatile security situation in the first year of KATA's implementation (2006), the food riots in April 2008, and the four storms that hit the island in August and September 2008 caused delays. These events resulted in a re-prioritization of program activities that did not match the KATA program's initial focus. The riots, provoked by rising global food prices, prompted a programming shift toward high-intensity labor projects in agriculture. Since the hurricanes devastated the country as a whole and Gonaives in particular, responding to the immediate needs of the persons affected was the right thing to do.

Looking forward, KATA's programming for its final two years calls for CHF to focus less sharply on the creation of short-term jobs and concurrently to ramp up its long-term job creation efforts. The partnerships that the program staff established with the Haitian private sector during the first two years of the program's implementation are expected to bear fruit in the form of long-term job creation. As a result of CHF's extensive experience implementing infrastructure projects during the first two years, CHF has well-oiled systems in place to efficiently and effectively implement such projects.

The complex nature of KATA's objectives (generating short- and long-term employment in volatile areas), combined with the exogenous challenges encountered in the first two years of the program, necessitated flexibility and creativity. USAID, as KATA's primary funding source, has given CHF and its partners the margin of maneuver that permits them to adjust the program to reflect Haiti's shifting conflict dynamics and economic environment. An important lesson is that in a conflict-affected environment, stability rests not only on generating short-term results, but also on building the long-term

foundation for sustained employment and economic growth. The experience and skills that CHF gained in the course of addressing these challenges will make it easier for CHF to move forward as new challenges arise in the final two years of the program.

DRAFT

### **Panel 3: Governance and Rule of Law Underpinnings**

Practitioners know that context is as important as principles in determining the right mix of macro and micro elements that underpin the transition from a post-conflict to a wealth-creating society. How can we develop the governance and rule of law institutions that we need to reactivate an economy in distinct post-conflict settings? Since development of sustaining capabilities cannot succeed on the basis of a one size fits all approach, how might sequencing of relevant activities affect economic transformation? How do we cope with social and cultural values that might impede such change?

Professor Clifford Zinnes, a senior fellow at the IRIS Center, moderated the discussion on these topics and submitted a paper for the report. Dr. Lubomira Zimanova Beardsley, a senior legal counsel at the World Bank, described the Bank's program on *Rule of Law Reform in Afghanistan*. She was followed by Mr. Amit Pandya of the Stimson Center, a former USAID Deputy Assistant Administrator for Asia and the Near East, who described *Local and Donor Obstacles to Restoring Public Administration Capacity*.

#### **Presentations**

Dr. Zinnes opened the presentations by distributing a hand-out of the work he and his associates had done for USAID on fragile states, including a typology. His main points were:

- All countries are different. Eleven fragile state syndromes can be identified that cover the typology of failing, failed, and recovering states.
- Recovery syndromes include external intervention, negotiated settlement, a clear winner, containment of rebels, and ongoing failures.
- Recovery depends on the quality of the institutions of a country, in politics, economics, and security, as well as on the effectiveness and legitimacy of these institutions. Donors are too hung up on effectiveness rather than legitimacy.
- The roles of the local and of the central governments should be a function of what has to be done, when, and where. Each level of government may separately play the lead part at some point along a continuum of events that may occur sequentially. Too much attention is given to strengthening central government over local government—especially in places with no tradition for it.
- Society is an organic system. Change in any component ripples through the system, often in unexpected ways. Major donor initiatives should first be assessed in the context of an analytic narrative or story of a strategic game played by key stakeholders.

- Culture matters. It looks backward and is sustained by experience. It is locked in and changes slowly, only through adaptation, not diktat.
- The main precept for practitioners should be “do no harm.” Outsiders tend to be insensitive to foreign cultures, sometimes with adverse effect. During disasters or protracted conflicts in which foreign states have a major interest, the latter may channel substantial financial resources to such countries. The huge inflow of money may facilitate corruption. Such funds may cause inflation and distort local labor markets.

Dr. Beardsley talked about legal sector developments and reform in Afghanistan. She said the Government of Afghanistan and foreign donors formed a compact in January 2006, which led to a conference in Rome in July 2007 where a justice development program financed through pooled funding was agreed to. Dr. Beardsley participated in the conference.

The expectations, especially of donors, were that human rights would be respected and basic justice services provided in Afghanistan by 2010. The government’s expectations were that traditional justice would be accommodated and everyone might have access to it. The system would cover a broad range of institutions.

Key characteristics of the justice system in Afghanistan include:

- Formal state law, sharia, and customary law coexist.
- These institutions compete.
- The informal system of justice is faster; its decisions can be enforced. Although the system protects the powerful and is corrupt, the populace is loyal to it.
- Land disputes dominate the informal system. Eighty percent are adjudicated within the informal system.
- In Kabul, formal state courts are increasingly being used to resolve such disputes. Many plaintiffs appeal to them because of the incompetence of judges at lower levels.
- Legal representation is almost unknown.
- The personnel are badly trained and poorly paid within the system. Fifty-five percent of the judges were appointed under previous regimes. Many have been killed or been threatened in the execution of their duties in the last seven years.

- There are few court houses and most are in bad shape. Hearings and other proceedings may be held in one room. Very little information is shared. Court personnel have little or no transport to carry out their duties.
- There is no overarching justice system. There are no comprehensive, consistent rules. Outsiders do not know how the system works.

Since there is little data and no clear picture of the challenges, the strategic choices for external reformers are difficult. Donors want results quickly. The World Bank is flexible and adaptable. It has formed a dynamic partnership with the government. The Bank is the junior partner since the government knows far more about the systems than does the Bank.

The objectives of the World Bank's Phase 1 project are to strengthen the central justice system and to facilitate the people's access to justice. The Bank has about \$30 million to do this.

Donors face several emerging challenges in Afghanistan. Insecurity is on the rise. Afghan institutions are performing unevenly. And yet, the Government of Afghanistan is more realistic than the donors. The donors are undermining their own interests. They cannot manage expectations. The quality of international aid is uneven. We have to overcome the effects of the bad work of earlier projects.

The Government of Afghanistan wants to pursue reforms, but on its own terms. Donors must put the government in charge. Where they have done this, they have energized the government. It is making reasonable decisions. The minister of justice and the supreme court justices are impressive.

Mr. Pandya followed by saying he has been examining how the post-conflict environment affects restoration of public administration. During conflict, the public administration infrastructure and its human resources deteriorate. In the aftermath of conflict, capabilities must be rebuilt. The goal must be the local populace governing themselves. Donors can provide technical assistance to jump-start the process. While engaging in short-, medium-, and long-term capacity building, donors should transfer functions and responsibilities to host country authorities to diminish the local authorities' reliance on outside expertise.

A problem is that stop-gap measures take a life of their own. This often results from lack of patience or planning and lack of data. Donors often try to complete projects or to implement programs by themselves just to "get them done" and then transfer the responsibility for their sustainment to local officials without prerequisite training. Consequently, these officials do not have the capabilities that the outsiders expect them to



have by the end of a program or project. Later, foreign experts return to host countries to restart the process.

The donor system works poorly in other respects. There is often little or no coordination among donors in conflict affected countries. There is poor or no coordination among host government ministries and the donors coordinate poorly with them. Donor contracting procedures are cumbersome and subcontracting makes them worse—it especially complicates accountability. Each donor does things its own way and the cost of the host government accommodating them all—in terms of having to adapt to each donor’s policies, practices, and procedures—is high whereas the host government capability to do this is low. The correctives are donor-host country coordinated monitoring and evaluation of programs and projects, de-confliction, and due regard of sub-national capabilities.

The great issue for practitioners is finding the right way to augment indigenous responsibility and capability, especially in the core government ministries. Government-wide core budgets are necessary for departments to take responsibility for their own programs. Work-force planning is necessary. The host nation needs time and resources to build a meaningful civil service. After achieving this, the question is how will it retain its trained personnel? For donor agencies, the issue is whether they will be supported over the long term by their governments. Creating indigenous capabilities to sustain host nation economic growth takes a lot of time.

### **Plenary Discussion**

Professor Zinnes agreed that success implies donors’ transferring power to local officials and giving up control. Donors have to let go yet they desperately seek to retain control. What can practitioners do to ensure that the interests of conflict affected countries are in synch with the interests of donors?

Dr. Byrd asserted that most World Bank public administration projects have failed. He agreed that expectations must be kept down. He said very fragile post-conflict governments often go to the individual donors for help. How should the latter relate to such fragile governments? What happens if they go off balance?

Mr. Pandya replied donors should not be engaged in state-building but in international diplomacy if a government is going off the rails. In countries on firmer footing, such as India and Sri Lanka, public administration reform has taken hold. As for countries just emerging from conflict, how can they achieve fifty percent of what India and Sri Lanka have achieved?

Mr. Kramer responded that we have heard in every presentation that “it is necessary to take into consideration the local government.” Why are we trying to set up a formal

justice system in Afghanistan when we find that its people like the informal system? Why should we push them into a formal system? Doing so is a classic example of principles not being applied. We end up pushing against a great deal of resistance. Why not make do with the informal system?

Professor Zinnes replied that the way to think this through is by noting the distinction between “formal” and “formalized.” “Formal” implies the imposition of our own systems. Formalizing is doing what must be done to ensure greater consistency and coherence of practices and procedures within informal systems.

Mr. Pandya remarked that we have seen formal and informal systems operating in a variety of settings, from which we can derive principles.

Dr. Beardsley said we talk about “building” capacity, but we should be talking instead about the provision of legal services. Customary law is seriously compromised. It needs uniformity. Even if a country has laws, it does not necessarily have a legal code. We must find a way to bring institutions into a larger order: the local in the regional, the regional in the national, and the national in the international order.

Mr. Kramer asked how one changes the law in another country? Just lecturing host nation officials does not effect change.

Professor Zinnes asked how much risk are host governments willing to run to please donor states. How much room is there for experimentation?

Mr. Kramer rejoined there are many reasonable systems out there. A problem may be that donor agencies all work on their own projects in a vacuum.

Dr. Beardsley responded that donors need to support programs through which the local populace can have redress. The World Bank is working on local land rules to see how they might be used to resolve land disputes in Afghanistan.

Ms. Borany Penh, USAID, asked how the American, British, and French judiciary systems developed? Did not property rights lead their development? The latter was heavily influenced by Western Europe’s Enlightenment; no similar intellectual effervescence has developed in other countries. We must be culturally sensitive. At the same time, we must consider what is appropriate for the twenty-first century, as did Herman De Soto in bringing about formalization of land rights in Peru.

Dr. Byrd said donors have made many mistakes in Afghanistan by underselling the Afghans. The latter have evolved. Donors have had many successes when the Afghans have taken on responsibilities for donor projects or programs. Donors need to capture the

principles enabling such success. One of them is that quality of leadership in government is critical.

Mr. John Sandoz said we can learn lessons from one another's experiences or by drawing on our own. He agreed that nurturing a good leadership cadre in Afghanistan is critical.

Mr. Eric Beinhart, Department of Justice, cautioned that many host-nation officials with whom donors work in conflict affected countries are not connected to their own cultures. Many of their experiences—in education, etc.—may have originated outside the host country. Such people, who often are at the center of the governments of conflict affected countries, are not necessarily representative of the populace.

Mr. Pandya said Afghanistan had a functioning state during 200 years. When and how did it function? There have always been local and central government tensions. Shuras are not the model of the previously successful Afghan state.

Dr. Smith said practitioners cannot do “development as usual” in post-conflict situations. They must build on the local norms, on the processes embedded in the local cultures. We are discouraging the tendency of groups to favor their own members, but Mozambique experienced dynamic economic growth by drawing upon the strength of local leaders. Its government heeded USAID's advice that senior leaders be paid salaries larger than those that would have guaranteed socialistic equality. While these officials did not pursue land reform right away and have not developed a land market yet, they set the foundation for private investment sustaining economic growth.

Professor Zinnes concluded the plenary discussion by noting that most of it had been on identifying ways through which practitioners can legitimately and culturally fit their efforts to the local situation, while making the transition from traditional to formalized systems. He felt there was consensus on the need to empower the local populace, and on the fact that donor coordination remains a problem even if many donor projects have been successful or are being well implemented.

# **Afghanistan Legal and Judicial Reform**

by

L. Z. Beardsley  
World Bank

## Islamic Republic of Afghanistan Context

- Located between Iran, Pakistan, Turkmenistan, Tajikistan, and Uzbekistan
- Durrani Empire (Kandahar and Kabul, 1747)
- Buffer state between British Indian Empire and Russian Empire (19<sup>th</sup> century)
- Afghanistan became independent August 19, 1919 following Anglo-Afghan war
  - Periods of independence: 1839-1842, 1878-1880, 1919 *et seq.*
  - Continuous civil wars since 1970 interrupted by 1979 -1989 Soviet invasion
- United States leads invasion to topple Taliban in 2001
  - UN Security Council authorized International Security Assistance Force (ISAF, 2001)
  - Afghanistan leaders and Diaspora agree on government (Karzai, Pastu of Durrani clan named president; December 2001)
  - Loya Jirga (Council of Elders) created in 2003
  - Constitution approved 2004

## Justice Sector Development Context & Strategy

- Afghanistan Compact (January 2006)
  - Security
  - Governance, Rule of Law and Human Rights
  - Economic and Social Development
- Rome Conference (July 2007) calls for acceleration and better coordination of reforms:
  - Justice Sector Development Strategy and Program
  - Afghanistan Reconstruction Trust Fund (donor pooled finances)
  - World Bank involvement

## Great Expectations

- Goals for 2010
  - Protection of human rights
  - Capacity to provide basic justice services
    - Legal framework and procedures
    - Police, prisons, judiciary fully operational
  - Equal access to justice:
    - Judicial institutions apply *written codes in fair trials and verdicts are enforced*

## Government's Vision

- Affordable and sustainable justice system
- Accessible by all Afghans—whoever they are and wherever they live
- In conformity with international minimally acceptable quality standard
- Stronger linkage between the state and traditional systems (where appropriate and in keeping with the rights of Afghan nationals)
- Legally aware populace, better able to demand their rights and perform their responsibilities

## Justice Sector: Broad Range of Institutions

- Courts
- Prosecutorial offices
- Ministry of Justice (MoJ) and its regional offices responsible for:
  - Legislative drafting
  - Legal aid
  - Prisons (outside of the project scope)
  - Regulation of legal profession
  - Safeguarding of human rights

## Key Characteristics

- Absence of uniform rules: coexistence of state, sharia law, and customary law
- Competing formal and informal institutions:
- Courts versus jirgas and shuras
- Formal institutions corrupt, fail to deliver justice services
- Informal system is faster, cheaper, and more transparent but:
  - it is not immune to corruption and often protects the interests of the powerful, and
  - enforces informal rules, including notions of shame and honor, that contradict human rights
- People are loyal to customary and informal institutions
- Wide gap between laws and legal realities
- Disputes over land dominate both systems (85 percent of cases) followed by family and contract enforcement disputes
- Shuras and jirgas decide 80 percent of disputes (but in Kabul, people are increasingly using the courts)
- 85 percent of first instance verdicts are appealed
- 70 percent of second instance verdicts are brought to Supreme Court
- Legal representation is an almost unknown concept

## Challenges: Lack of Human Capital

- 1 lawyer per 78,000 population (400 per 31 million population)
- 1 prosecutor per 12,500 population
- 1 judge per 18,300 population
  - 2 percent (41) are women-judges
  - 55 percent appointed under former king, mujahideen, Soviet, or Taliban administration
  - 16 percent were educated in madrassas, 20 percent have no university degree, and up to 20 percent are illiterate
  - 48 percent have not received judicial training
- Appointments are made on the basis of ideological beliefs or personal associations
- Judges make \$80 per month and prosecutors \$65
- They often are threatened and some have been killed on the job

## Challenges: Physical Infrastructure

- There are about 446 courts, 334 prosecutorial offices, 400 MOJ offices in the country
  - Most of the few court houses are badly dilapidated; often policemen, judges and prosecutors share the same office
- There is little if any equipment in the courts and offices, and access to statutes is very limited
- Legal professionals (including judges) lack the means of transportation to access their offices, prisons, sites of crimes
- Communication among judicial personnel is difficult

## Challenges: Management

- Institutions not operating as coherent system
  - Few inter-institutional links relating to rules, standards, practices
  - Unclear functions and mandates
  - Inconsistent processes and operations
  - Uneven and inadequate enforcement of rules on books
  -

- Few or no performance standards and benchmarks
- Little monitoring of performance and collection, analysis and exchange of data and information
- *Ad hoc*, conflicting, arbitrary management interventions
- Weak sense of professional fraternity

## Bank's Challenges

- Much has been done (by donors and the Government of Afghanistan) but not enough change of lasting consequence has been achieved
- Little reliable evidence about the state of affairs in justice sector
- High number of players with different interests and expectations
- Elephants in room:
  - Government and donors do not speak the same language
  - Little discussion on substantive laws
- Agreed strategy and program not completed in time
- All donors and the government must support the project
- Security concerns confined World Bank team to Kabul
- Ambitious timeframe (about 6 months to prepare a project)

## Strategic Choices

- Incremental approach, overlapping projects:
  - Phase 1: implementing quick impact activities while preparing foundation (implementation structure, monitoring and evaluation system, empirical data) for anticipated more robust Phase 2 of two-year project
  - Phase 2: sustaining the results of Phase 1 and addressing more complex challenges in a comprehensive manner (five-year project)
- Flexible project design
- Dynamic partnership with the Government
  - Acknowledging information asymmetry and lesser initial filtering by the Bank

## Design Principles

Shift from *ad hoc* initiatives to more systemic, structural reforms implemented by Afghan judicial institutions

- Working through justice sector centers of excellence (incubators of best practices)
- Meeting infrastructure needs as part of a comprehensive program of institutional reform



- Strengthening professional fraternity and self-governing structures in the justice sector to promote professional competence and integrity and fight corruption
- Recognizing additional challenges faced by the most vulnerable of the Afghan population: women, children, and persons with disabilities

## Justice Sector Reform Project Phase 1 (April 2007)

- Objective:
  - Strengthened capacity of centralized justice system to deliver services
    - More strategic human capital and physical infrastructure management
    - Improved skill
    - Enhancing physical infrastructure
- Populace's increasing access to justice
  - Legal empowerment through
    - Legal aid
    - Legal education (outreach targeting local leaders and communities)

## Activities & Resource Allocation

	Project: Justice Sector Reform Project	US\$ million	10% of Comp Cost	Notes
	Country: Afghanistan			
	Project Cost by Components			
<b>A</b>	<b>Strengthening Capacity of Legal Institutions to Deliver Legal Services</b>	<b>23.6</b>	<b>2.36</b>	Reallocation of Funds
1	Human Capital	5.3	0.525	Up to 10% of the estimated cost can be placed in the "unallocated category". If during project implementation the project funds of a particular category (Goods, Works or Services) have been depleted it would be possible to easily "reallocate" funds from the "unallocated category" to the depleted category, e.g. Works.
2	Physical Infrastructure	16.9	1.69	
3	Information and Communication Technology	1.5	0.15	
<b>B</b>	<b>Empowering the Poor</b>	<b>2.6</b>	<b>0.26</b>	
1	Legal Aid	2.0	0.2	
2	Legal Awareness Campaign	0.6	0.06	
<b>C</b>	<b>Strengthening Implementation Capacity</b>	<b>1.75</b>	<b>0.18</b>	
	<b>Total Project Cost*</b>	<b>28.0</b>	<b>2.80</b>	Unallocated Category

## List of Activities

- Human Capital
  - HR management capacity
  - Training in management capacity
  - International conference on Islamic law
  - Local gathering of legal professionals
  - Law libraries
  - Legal forms and support
- Physical Infrastructure
  - Capital investment plan& facilities design standards
  - Refurbishment of facilities and preparatory work for construction of new facilities
  - Purchase of vehicles, furniture, equipment, information and communications technology (ICT)
  - ICT assessments and plans
- Legal Empowerment
  - Piloting legal aid offices in 6-8 provinces
  - Implementing legal awareness campaign in 3-4 provinces
  - Creating media unit in Kabul
- Strengthening implementation capacity

## Emerging Challenges

- Worsening security situation undermines collection of data, as well as supervision and preparation effort in general
- Uneven performance of Government of Afghanistan institutions slowing down activities requiring joint effort
- Attempt of some donors to leverage their interests through the World Bank project complicates relationship with Government
- Continuing difficulties in managing expectations
- Uneven quality of international assistance and difficulty in reversing negative impact of previous projects

## Observations

- Government is demonstrating willingness to reform; however, on its own terms
- Reliance on government in implementing project energizes our partners
- Impressive MoJ and supreme court capacity and leadership to implement reforms
- Assistance of international advisers, if channeled properly, can make a big difference

## Helpful Literature

- *National Justice Program*, Government of Afghanistan
- *Islamic Law and Afghanistan Legal System* by Martin Lau
- *Including Marginalized Groups into the Legal System* by Sippi Azarbaijani-Moghaddam
- *Local Perception of State and Law* by Christine Noelle-Karimi
- *Building a Post-War justice System in Afghanistan* by Ali Wardak
- *An Assessment of Durability & Enforcement of Decisions in the Informal and Formal Justice System in Kabul* by the Norwegian Refugee Council

# **LOCAL AND DONOR OBSTACLES TO RESTORING PUBLIC ADMINISTRATION CAPACITY IN POST-CONFLICT SOCIETIES**

by

Amit A. Pandya, Stimson Center

## **Problem**

More than five years after the international community intervened in Afghanistan with substantial military force, and despite the expenditure of billions of dollars in assistance including in excess of half a billion dollars for technical assistance and capacity building, the indigenous capacity of the Afghan government to perform its sovereign responsibilities remains fragile. This fragility is the result not only of the insecure situation, but also of the mutual failure of the donor community and the Afghan government to effectively use the hundreds of millions of dollars given to it to enhance public administration. The government remains dependent on foreign technical and administrative expertise.

The failure in this case is not so much one of the wrong precepts being applied. Instead, it is that what has been learned and is widely understood has been ignored in the making of policy and in the design of assistance strategies to rehabilitate public administration.

This note draws lessons from recent attempts to restore public administration capacity following conflict. The initiatives are almost always desired by the transitional governments of the countries concerned and are also often adopted at the behest of other interested governments (troop contributors or donors). The initiatives are often designed by these outsiders and are almost always predominantly funded by donor resources. There is frequently doubt about the fundamental question of who controls such work.

Whereas similar doubts generally plague all donor-funded rehabilitation and reconstruction efforts, in the case of public administration—the essential function of a sovereign government—these doubts present a particular difficulty. If the government of a country concerned is only partly in charge of such efforts, how responsive are the foreign donors likely to be to local conditions and constraints, and how effective can the transition be to full sovereign control of government functions?<sup>1</sup>

There is little surprising in the lessons we have learned from attempts to restore public administration capacity following conflict. They have been noted repeatedly. Yet in

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<sup>1</sup> Not addressed here is the case of governing authorities constituted by the international community, as in the case of the United Nations Transitional Authority in Cambodia (UNTAC), where interim staffing and policy direction of key governmental functions by expatriate experts is consistent with, even integral to, a quasi-sovereign arrangement.

every recent case of post-conflict rehabilitation and reconstruction they appear to have been ignored at the outset or forgotten in mid-implementation. A restatement of the obvious may have value as an explanation of recent failure and as a reminder of what should be borne in mind in future attempts. At the very least, a comprehensive checklist may serve as a counter to the pull of pragmatic measures to create short-term capacity at any cost, even that of long-term sustainability.

### **Capacity Building and Importance of Public Administration**

Public administration is what enables all other social activity to proceed. Without effective state institutions, regulation of economic activity and social initiative is impossible. There can be no meaningful or effective restoration of the social and economic processes and dynamism of a society without restoration of public administration.

In almost all post-conflict situations, one finds deterioration of the physical infrastructure of administration. This includes elements like office space and furniture and equipment, as well as communications procedures and systems. Such deterioration is the inevitable result of destruction by violence or of the neglect that afflicts routine functions in crisis situations, as well as the lack of resources resulting from lowered economic activity and revenue collection. We also uniformly find deterioration of the human resources of public administration, owing to lack of attention to education, training and transmission of knowledge, and emigration of qualified personnel.

From the recent experience of Afghanistan, we see how vital to overall security and to the success of stabilization are the activities enabled or facilitated by effective public administration. A recent poll conducted by the Asia Foundation found that twice as many Afghans cited economic issues as did those who cited security as the biggest problem in their country. The overwhelming majority are concerned about issues like unemployment and higher food prices. At the local level the main concerns cited are poor or non-existent electric power, water, and roads. Not one of these issues can be effectively addressed without effective government regulation and public investment.

The principal measures for the effective restoration of public administration posited here are the transfer, adaptation, and local mobilization of the services, skills, knowledge, technology and engineering that are required to build national capacity on a sustainable basis. The object of these efforts is to create sustainable local capacity that will outlive international community intervention and donor attention, while simultaneously recognizing that an outside agency remains important at the outset to facilitate the transfer and adaptation of these goods.

The types of assistance required by conflict affected governments and offered by donors consist of two types. Technical assistance (TA) is, or should be, an emergency measure

to jump-start governance and public administration in an environment where these have been neglected and have seriously atrophied. In the absence of sufficient locally available indigenous intellectual and human resources, TA may be required to draw on expatriates as a substitute for the not yet extant indigenous capacity. These foreign advisors may perform operational functions or offer advisory services.

Medium- and long-term capacity building is directed at creating sustainable local capacity that will survive the withdrawal of external providers. TA should be for the training of nationals, preferably career civil servants, of the country concerned. It should have as its guiding principles the need to transfer technical and management functions to local officials as soon as possible, and the need to progressively diminish their reliance on expatriate expertise.

In the absence of progress along a continuum from short-term technical assistance to medium- and long-term indigenous capacity, the government of a conflict affected country is likely to remain substantially dependent on outside expertise and resources long after the intervention of the international community can realistically be expected to terminate. Thus there remains a real danger that the withdrawal of the international community's resources may cause the host country's entire public administration capacity to collapse, thereby leaving a vacuum of political authority and legitimacy at precisely the time when the international community's withdrawal places a premium on such authority and legitimacy for the maintenance of peace and security.

### **Obstacles**

The training of, and transfer of functions to, local officials and experts in order to build long-term capacity is practically impossible in the absence of a firm commitment among expatriates and donors to empower local officials. Too often lip service is paid to this precept, yet the culture of the expatriate assistance community remains skeptical or contemptuous of host country authorities, and the political reality of foreign military, diplomatic, and donor interventions skews power, influence, and intellectual authority away from local officials.

Many other systemic obstacles prevent effective and sustainable capacity building for public administration. These are not necessarily put up by donors or a conflict affected government or other elements of the society of the country concerned. The obstacles are susceptible to solution through the cooperative efforts of the international and local authorities. Among the most significant obstacles is that the short-term technical assistance that is intended as a stopgap takes on a life of its own. Long-term capacity development is then sacrificed to short-term efficiency considerations.

As a result, insufficient attention is paid to the way by which to effect the transition to long-term capacity building. There are many good reasons for this inattention. There is

plenty to be done in the present. Meeting the immediate basic needs of the populace is compelling since the levels of health, education, fuel, electric power, and clean water they have determine the misery or happiness of human beings who have suffered more than their fair share of hardship. Jump starting a minimal level of economic activity is therefore essential in the short term. In the face of such pressing demands, transitioning to long-term administrative capacity building becomes a lower priority. The lack of indigenous experts in public administration reinforces this tendency.

When the success or the failure of a government to meet these immediate needs determines the popular legitimacy of that government—and indeed of a fragile transitional post-conflict or post-crisis political order—meeting them is essential to the maintenance of security against rebellion or violent resistance.

The same immediacy of need relegates to lower priority the creation of a planning mechanism to reconcile short-and long-term objectives in which all stakeholders, indigenous and donor, can participate and in which the divergent parochial interests can be harmonized and advanced. Too often, such planning mechanisms provide for a nominal body without power and authority to create coordinated planning processes.

The orderly conduct of capacity building is hampered by limitations resulting from the inability of government institutions to gather, retain, and analyze data. Also important are the limitations resulting from obstacles to systematic data gathering posed by the usually insecure environment. These limitations hinder such planning as does take place, since it is compelled to proceed in a vacuum. They also hamper the monitoring of results necessary to the course corrections required for sustaining a long-term process of capacity building.

### **Government**

Several weaknesses and obstacles present themselves to governments of countries affected by conflict, handicaps that are part of the nature of the post-conflict environments and the weak governmental structures and capacities that inevitably characterize such environments. At the heart is a vicious cycle. The governments lack capacity to absorb and manage, to domesticate and indigenize, the technical resources that donors provide to them. This forces their continued reliance on outside experts. The lack of skills in most local government institutions to participate meaningfully in a system to rationally allocate short-term technical or long-term capacity building assistance or in project planning and project implementation compounds their reliance on outside experts.

Equally troublesome is the inevitable lack of a clear policy vision on the part of the conflict affected government in a context of withering intellectual and political processes and institutions.

## **Donors**

Certain characteristics of donor operations act as obstacles to development of sustainable public administration capacity, and particularly to effective transition from short-term technical to long-term capacity assistance. Some are inherent to donor practices for good reasons of accountability and of flexibility and agility in planning and implementation of assistance. Donor funds are often channeled directly to non-governmental organizations, to international organizations like the UN agencies or regional organizations, or to consulting firms. Donors have varying procedures, rules and requirements. Weak consultation and reporting mechanisms among donors and between donors and affected ministries compound the difficulty in coordinating the efforts of a multitude of assistance providers in an environment characterized by a panoply of inconsistent rules and procedures.

Other donor constraints are less excusable. The lengthy contract and procurement processes of donors result in delays in the provision of TA and capacity building assistance. Not only does this mean that assistance arrives later than desirable, delay also results in rendering the assistance unresponsive to fast evolving needs or rapidly changing awareness of needs. This set of problems is compounded by subcontracting. Unfortunately, it is becoming an increasing part of assistance provided as contracts have grown in size and complexity while donors struggle to accomplish complex and substantial sovereign tasks through private assistance providers.

Procurement by donors of specialist services for technical assistance, training, or other capacity building assistance is often limited to citizens of the donor country concerned. In the case of the United States, regulatory requirements limit the universe of eligible providers to a list of long-established consulting firms, thus providing little flexibility in harmonizing capacity building assistance across donors. As a result, technical assistance and capacity building remain dominated by expatriates. This makes them expensive relative to indigenous experts and detrimental to the building of sustainable indigenous capacity

Further exacerbating these problems are common donor practices such as payment of top-ups to host country government employees, practices not coordinated among donors or even with government departments, and the establishment of a highly paid parallel civil service of expatriate consultants.

Often, multiple providers of technical expertise and capacity building services, funded by different donors, compete with one another in the host country departments. This makes the task of coherent management of human resources difficult if not impossible for local government officials.

## **Recommended Solutions**



If the international donor community is to avoid repeating the mistakes of the past, wasting increasingly scarce aid resources, and risking failure of its efforts at post-conflict stabilization, the community should draw the following lessons from recent experience. Disciplined commitment to continued application of these lessons is essential regardless of short-term expediency.

### Coordination between Donors and Government

It is critical at the outset of an intervention for donors to establish and empower an apex committee of key institutions from among host country government departments and offices and various donor agencies. Specific officials and offices should be identified within the host government and in each donor agency. If the local government lacks the knowledge and skills to participate meaningfully in such coordinated planning, donors should provide the requisite technical assistance to build that capacity.

### Donors

Donors should provide more predictable and multi-year funding to enable the governments and donor agencies to plan capacity building coherently. Year-to-year changes make it impossible to carry out the long-term planning necessary to develop long-term capacity. Donors should also provide timely transparent and comprehensive information about their own planning processes and policies in a form that will enable the host country government to plan its own activities. Too often donors consider their own processes to be nobody's business but their own. This attitude is detrimental to the interests of all concerned.

To transition to local control, donors should also increasingly use indigenous implementation partners and equally qualified locals rather than expatriates.

The guiding objective of all efforts should be to make technical assistance and assistance for capacity building part of the core government budget as soon as possible rather than allow it to remain uncoordinated in various donor budgets. Such loss of control understandably makes donors nervous, particularly in cases of government incapacity or corruption. These concerns should be addressed and rectified in the planning process rather than through reservation of donor control of budgets.

### Government

Governments of countries affected by violent conflict should seek to establish a fiscally sustainable and transparent public administration that nurtures capacity building, among other things. Their role should be less that of passive recipients of aid and more of active initiators of requests to donors and designers of technical assistance and capacity building. The constituent parts of these governments should be subordinated to central

coordination and priority setting. Only thus can there be strategic planning for the use of finite resources for these purposes.

Systematic planning processes for capacity building should be established (and should be demanded by donors at the outset) both government-wide and in particular ministries and institutions.

Capacity building and technical assistance should be explicitly addressed as distinct items in ministry-level and government-wide processes of budgeting and program planning. A central government authority should be designated to provide guidance on the preparation of budget input by ministries, and such guidance should specify dedicated attention to capacity building.

No coherent system for improving matters is possible without a baseline. Early systematic assessment of workforce requirements and existing human resources should be carried out as a baseline for future planning. This should be followed by the establishment, development, and strengthening or empowerment of a civil service commission or similar body to develop a system of merit based appointments, vetting procedures, and performance based reviews.

### General Principles

To build long-term capacity for public administration, systematic and sustained planning and programming processes are essential. Continuity of personnel responsible for these tasks is essential.

Among the preconditions for a sustained process of planning and implementation is systematic monitoring and evaluation of all technical assistance and long-term capacity building measures, using the criteria identified here and applying the lessons learned. This monitoring and evaluation presupposes the development and adoption of, and frequent reference to, measurable outputs and milestones by which to gauge progress. These must be agreed in detail and in advance by donors and host country governments.

Systematic planning depends on systematic assessment of the public administration capacities available locally. This should include assessment of the local capability to design and conduct training, as it is presumptively more effective to have persons familiar with local conditions and constraints doing the training. Systematic and realistic assessment must be made of the capabilities of local trainees to absorb expertise, and of the capacities of beneficiary institutions to receive and benefit from technical assistance. Modest expectations should guide planning.

In the design and implementation of capacity building plans and programs, all concerned should pay attention to sub-national capacity. However successful national capacity

building efforts prove to be, failure to bring along sub-national government units will constitute a serious weakness of a government struggling to establish its legitimacy and sustainable capacity.

The fundamental principle that should guide donor capacity building efforts is that host country governments must assume leadership. They must set their own development priorities and strategies. It is tempting but highly risky for donors to substitute themselves here. Whatever the capacity limitations of governments affected by conflict, in the post-conflict setting they generally formally embody their countries' sovereignty. It is, in all cases, preferable to allow them to learn from failure while donors remain in country than to have them run the risk of failure to build capacity sustainable beyond the period after donors depart from the scene.

### **Conclusion**

Critical and urgent day to day demands will always threaten to distract attention from long-term planning to short-term expediency. Development of sustainable capacity depends on disciplined commitment to a long-term agenda, development of institutional arrangements and procedures to ensure attention to that agenda, and constant reference to the checklist of lessons learned.

**Strategy Framework for the Assessment and Treatment of Fragile States<sup>1</sup>**  
**by**  
**Clifford Zinnes, IRIS, University of Maryland**

Instability and violence inherent in a number of developing countries threaten our national security and undermine political and economic development efforts in the former. The U.S. National Security Strategy recognizes these links by making development, diplomacy, and defense the three pillars of U.S. national security. Yet donor efforts over the years to address states that are failing, in failure, or recovering from failure—all degrees of what can be called fragile states—have not been encouraging. Doing better requires a fundamental shift in the way development assistance is implemented.

Below we summarize a methodology developed by a team of multidisciplinary experts from around the United States in support of efforts by the U.S. Agency for International Development to develop an intellectual basis of its strategy to treat fragile states.<sup>2</sup> The methodology describes a new approach to program design—though not necessarily to technical assistance, which remains the same in many ways. The approach suggested here differs from current practice in that the former is intrinsically institutional and holistic, and more socio-political than economic. It stresses group behavioral dynamics. We end this paper with recommendations and questions to development practitioners in the field.

**An Assessment Framework**

Before taking any initiative, it is imperative to have a consistent baseline of what is happening to society on the ground. This requires an assessment framework. The approach proposed below is based on three key insights. First, the fundamental source of state *resiliency* or fragility is the quality of its underlying institutions. These institutions comprise the political, economic, social, and security elements or dimensions of state capacity. Each type of fragility can be characterized by the behavior and quality of state's institutions along these dimensions.

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<sup>1</sup> This paper draws heavily from J. Goldstone, J. Haughton, and K. Soltan, and C. Zinnes (2004), “Strategy Framework for the Assessment and Treatment of Fragile States”, Washington, DC: USAID. This work was produced by the Project to Develop Strategies for Failing, Failed, and Recovering States under a collaborative agreement between USAID and the IRIS Center of the University of Maryland. The interested reader is referred to that document for a more detailed discussion and references.

<sup>2</sup> In addition to the author's collaborators mentioned in footnote above, those offering input to the exercise (but not responsible for its error or omissions) included Tom Schelling, Barry Weingast, Avner Greif, John Steinbrenner, Timor Kuran, and Robert Bates.

Second, the quality of this capacity depends on the legitimacy and effectiveness of each element. State *effectiveness* refers to the degree to which a state has the administrative capability to carry out tasks of public service provision and governance—e.g., balancing the budget, training judges, or upgrading telecoms. Ruthless dictatorships and open democracies can be effective or ineffective. This characteristic is a matter of getting tasks done, not how a government is chosen or what its policies may be.

State *legitimacy* refers to the perceptions of various groups in a society that the state is acting or not acting with encompassing interest. Perceptions of justice or injustice are powerful factors in affecting state stability or collapse. Ethnic groups can co-exist peacefully as long as they are confident they are being fairly treated by the government; systematic discrimination generally triggers opposition and rebellion. Legitimacy derives from how a regime acts in power, as well as how that regime was chosen or came to power.<sup>3</sup> Dictators who have seized power in anti-democratic coups can gain legitimacy if they act to stabilize living standards, limit or share corruption, and treat all sub-groups equally well. Merely having elections is no guarantee of legitimacy if the winner then excludes the interests of minority groups through its action. While effectiveness and legitimacy are ultimately related, development assistance providers have been preoccupied with state effectiveness. They have shied away from addressing state legitimacy, and their reluctance has been one of the main reasons for their lack of success in permanently shoring up fragile governments.

Given that the state is an organic system, the third insight is that strengthening the elements of state capacity independently of one another will have limited and possibly unsustainable effect. Changes should be made across the dimensions of state capacity in order to strengthen the *constitutional order*, the principal instrument for making collective decisions and resolving conflicts (which are inevitable in society) in ways that forestall violence.<sup>4</sup> State failure is almost always associated with violence, which has been found to have three causes.<sup>5</sup> When members of a group perceive that the constitutional order is failing or worse, their security is at stake, they may engage in a host of actions to protect themselves; *protection of the group* can lead to violence. The larger the stakes, the greater the incentives for a group of similarly positioned potential beneficiaries to form a coalition to achieve their ambitions; *promotion of the group's agenda* can lead to violence. When moral outrage—a product of injury or humiliation—cannot be institutionally channeled and given satisfaction (e.g., via criminal prosecution or truth and reconciliation commissions), it can fuel powerful outbursts of violence; this

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<sup>3</sup> *Op cit.* Goldstone *et al.*.

<sup>4</sup> *Op cit.* Goldstone *et al.* defines this as the rules of the game upon which civil society and a functional state are built. The primary institutions that support the constitutional order are those whose decline creates trajectories that can lead to state failure.

<sup>5</sup> *Op cit.* Goldstone *et al.*.

is *the logic of moral outrage*. The key idea here is that the propensity for violence must be attenuated by regularizing, internalizing, and proceduralizing the management of the conflict that is inevitable in any society. This process is reinforced by the creation of *neutral ground*, a relatively impartial terrain—which can include the courts, parliament, and the like—upon which different groups promote and protect the interests of their members.

These three insights provide the basis of our assessment framework, four empirical diagnostic steps of which facilitate understanding of fragile states and the vagaries of the institutions of the resulting constitutional order.

*Step 1: Identify the applicable syndrome.* First, determine whether the country is failing, failed, or recovering. Then identify the relevant fragility syndromes—systemic ailments, analogous to the case of medicine—afflicting the country and driving its dysfunctional behavior. Each syndrome reflects a particular dynamic scenario of dysfunctional state behavior leading toward or having precipitated failure. A complete typology of eleven syndromes is given in Table 1 and Table 2 below.<sup>6</sup>

*Step 2: Customize the selected syndromes.* For the country under analysis, specify the relevant players, their beliefs, payoffs strategies, and modes of interaction (see template in Table 3 below).

*Step 3: Characterize the dimensions of state capacity.* Disaggregate state capacity into its political, economic, social, and security (“PESS”) elements and contextually assess the degree of effectiveness and legitimacy (“EL”) of these dimensions, including how they impact together on neutral ground and on the peaceful management of conflict and therefore the propensity for violence (see Table 4).

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<sup>6</sup> These are described in more detail in *op. cit.* Goldstone *et al.*

**Table 1: Failing State Syndromes**

Syndrome	Countries
Escalation of communal group (ethnic or religious) conflicts**	Rwanda, Liberia, Ivory Coast, Sudan, Yugoslavia, Lebanon
State predation (corrupt or crony corraling of resources at the expense of other groups)	Nicaragua, Philippines (1996), Iran (1979), Haiti (Duvaliers)
Regional or guerilla rebellion*	Colombia, Vietnam, Indonesia, Georgia, Chechnya
Democratic collapse (into civil war or <i>coup d'état</i> )	Nigeria, Pakistan, Haiti (Aristide), Bolivia, Madagascar
Succession or reform crisis in authoritarian states	Indonesia (Suharto), Iran (under Shah) Nepal, Pakistan (1971), Soviet Union (1991)
Humanitarian and refugee disasters	Ethiopia, Mozambique, HIV affected Sub-Saharan Africa

\* May also result from an external intervention or spillover of an adjacent conflict (e.g., Liberia, Lebanon).

**Table 2: Recovery Syndromes**

Syndrome	Representative Countries
<u>External Intervention</u> War ended by external intervention. Occupying authority either still in charge or recently handed over power.	East Timor, Bosnia, Lebanon, Cambodia, Liberia
<u>Negotiated Settlement</u> Main antagonists reached negotiated settlement and have laid down their arms.	Nicaragua, El Salvador, Ethiopia and Eritrea
<u>Clear Winner</u> One party to conflict emerged as decisive winner.	Uganda (in civil war), Mozambique, Angola, Peru
<u>Rebels Contained by the Government.</u> Government remains largely in control. Rebel activity continues. No evident prospect of an end to violence.	Colombia, Algeria, Indonesia (in Aceh), Uganda (in the north)

<u><i>Ongoing State Failure</i></u>	Somalia, Sudan, D. R. Congo
State remains mired in failure. Prospects of resolution in near future dim or extremely uncertain. Violence most likely to be intermittent.	

**Table 3: Analytic Narrative Template**

<i>Players*</i>	<i>Beliefs</i>	<i>Strategies</i>	<i>Stakes**</i>
Oligarchy			
Military			
<i>Juntas</i> and civilian governments			
Rebel groups			
Multilateral organizations			
U.S.			
Etc.			

\*The list of players is only suggestive and list will vary depending on country application.

\*\*In game theory, this is referred to as the payoff.

**Table 4: PESS-EL Matrix for State Assessment**

	<i>Effectiveness</i>	<i>Legitimacy</i>
<i>Political</i>		
<i>Economic</i>		
<i>Social</i>		
<i>Security</i>		



Step 4: Construct the analytic narrative. Refine the customized syndromes through detailed analytic narratives—non-mathematical, refutable, game-theoretic stories—that impose holistic consistency between the syndromes and the analysis of the PESS dimensions.<sup>7</sup>

The framework above helps to identify when a state is in danger of failing. Typically, states appear on lists of states at risk because one or more of the warning signs listed in Table 5 below suddenly become strikingly visible, particularly if accompanied by signs of increasing violence. However, the sudden appearance of one or two such signs does not conclusively show whether or not a state is failing. That determination depends on an analytic match between broad measures of state legitimacy and indicators of state effectiveness. One of the goals of a good framework is for an analyst to go beyond responses to individual signals or symptoms of state fragility, and to holistically monitor, analyze, and respond to the factors that underlie threats to social order.

We consider a state to have failed or to be on its way to failing if it shows any of several patterns of extensive and severe distress or dissolution discussed below and listed in Table 6. Yet merely showing these signs does not indicate what must be done to revive the state; that too depends on a causal analysis of how legitimacy and effectiveness can be restored.

Finally, a recovering state can be considered any state that was considered to have failed at some point within the past five years, but whose indicators are now improving.

Recovery from any set of syndromes requires restoring—or sometimes creating—the constitutional order, as well as increasing the legitimacy and effectiveness of the dimensions of state capacity. For a failing state, this may simply require rebuilding the legitimacy and effectiveness of the institutions along the PESS dimensions. For a failed state, this may require first developing the institutions of neutral ground that are required to establish legitimacy and only then working on the effectiveness and legitimacy of the PESS institutions. Figure 1 below summarizes these decisions at their most basic level.

**Table 5: List of Warning Signs That A State Might Be Failing**

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**Political**

<i>Effectiveness</i>	Elections that are violent, whose results are contested, or judged to be improper and unfair by international observers; attempted <i>coup d'état</i> ; 3 or more presidents or prime ministers in one year; government revenue
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<sup>7</sup> For detailed examples of analytic narratives see R. Bates, A. Greif, M. Levi, J.-L. Rosenthal and B. Weingast (1998), *Analytic Narratives*, Princeton, NJ: Princeton University Press.

10 percent or less of GDP; government loses effective control of at least 5 percent of its territory or at least 1 percent of its population.

*Legitimacy* One or more major groups are systematically excluded from political access, or political office, or full citizenship; political protests or strikes involving at least 0.5 percent of the population and repeated on 10 or more days.

### **Economic**

*Effectiveness* Country is low- or mid-income by World Bank classification, and one or more of the following obtains: GDP/capita has fallen 3 or more years, or is lower than 5 years ago; national debt is over 10 percent of GDP; inflation has accelerated 3 or more years and is 30 percent or more per year; currency has been devalued 50 percent or more in the last 3 years; unemployment has exceeded 20 percent three or more years.

*Legitimacy* One group (elite faction, ethnic group or subgroup, or family or cronies of state leaders) is corruptly dominating the economy for its private benefit; one or more groups face extensive and systematic economic discrimination; state is taking 45 percent or more of GDP.

### **Social**

*Effectiveness* Primary school enrollment is less than 60 percent and growing less than 5 percent per year; government fails to act to alleviate consequences of natural or accident disasters.

*Legitimacy* Specific regions or groups of population are deliberately not provided public services given to others; specific groups are prevented from practicing their important customs or language; government seen as too dependent on foreign support or otherwise betraying or departing from nationalist aspirations.

### **Security**

*Effectiveness* More than 1,000 people killed in political violence in prior 3 years; more than 1 percent of population displaced by political violence in prior 3 years.

*Legitimacy* One or more groups systematically subjected to violence or deliberately not provided security by the state.

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**Table 6: List of signs that a state is in failure**

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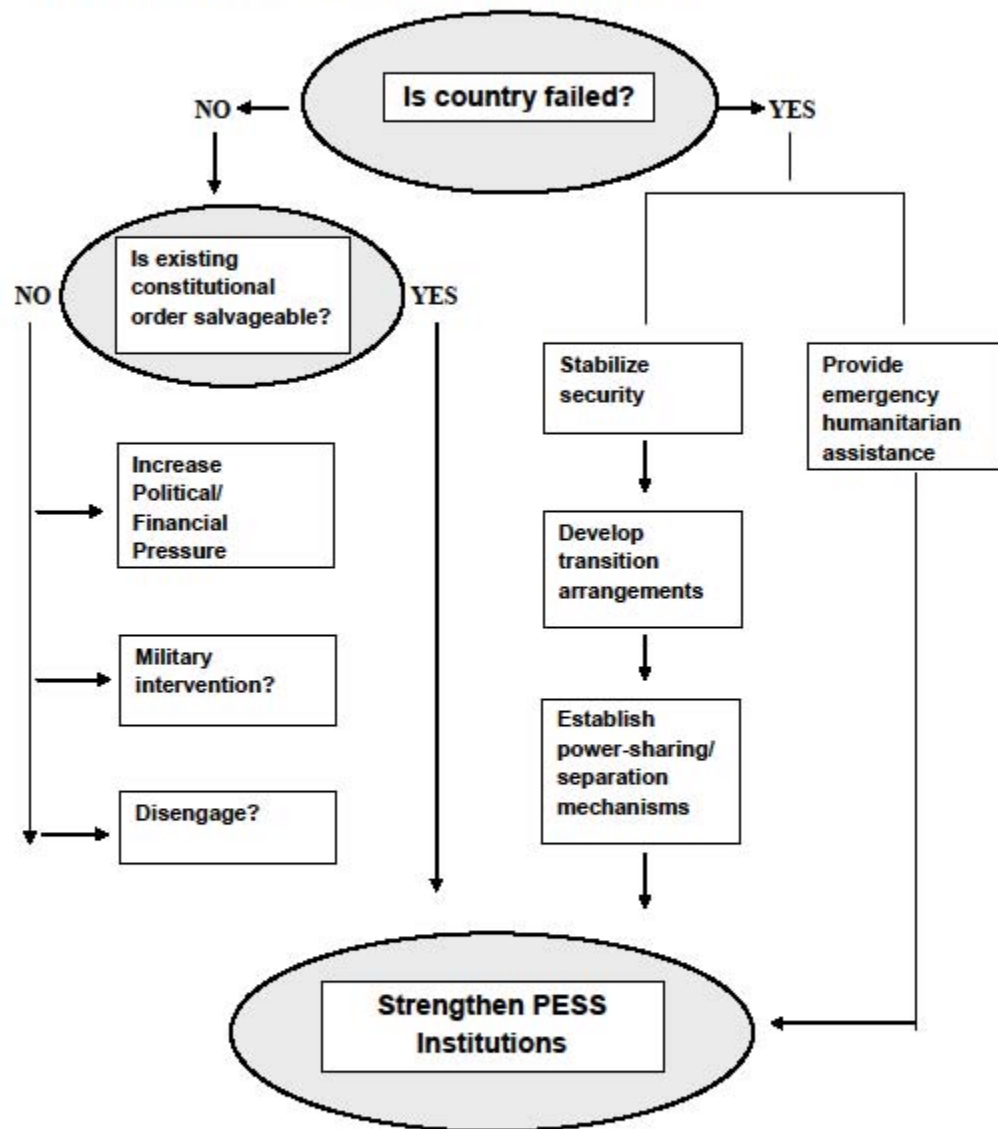
<b>Political</b>	
<i>Effectiveness</i>	Political process has broken down for all intents and purposes; attempted <i>coups d'état</i> occur; national statistics are no longer being collected or are meaningless; government loses effective control of at least 30 percent of its territory or at least 30 percent of its population.
<i>Legitimacy</i>	One or more substantial groups are systematically excluded from political access, or political office, or full citizenship; political protests or strikes involving at least 1 percent of the population are common and escalating in size and frequency (though these may not occur in the extreme case where there is no state and an uneasy equilibrium exists among competing armed factions).
<b>Economic</b>	
<i>Effectiveness</i>	Country is low- or mid-income by World Bank classification, and one or more of the following obtains: GDP/capita is less than 50 percent of previous high; government ministries have lost control of their sectors; tax collection broken down; local currency no longer desired and barter or dollarization is ubiquitous; unemployment exceeds 50 percent; donors are principal source of government revenue.
<i>Legitimacy</i>	One group (elite faction, ethnic group or subgroup, or family or cronies of state leaders) is corruptly dominating the economy for its own benefit; one or more substantial groups face extensive and systematic economic discrimination.
<b>Social</b>	
<i>Effectiveness</i>	Primary school enrollment is less than 60 percent and falling; health system is close to collapse; government unable to act to alleviate consequences of natural or accident disasters.
<i>Legitimacy</i>	Most population groups have only minimal public services and these are likely provided as a “club” good by individual groups themselves without government oversight; an exception may be a small group in a limited geographic area (capital city); specific groups are prevented from practicing their important customs or language; donors on brink or have stopped supporting the government.

## Security

<i>Effectiveness</i>	Ruling regime has been overturned and replaced by mass or elite action outside of constitutional or agreed-upon means, and order has yet to be restored; <i>or</i> ruling regime has lost control of 30 percent or more of its territory or population to armed opposition forces; <i>or</i> civil or guerrilla war is ongoing with fatalities exceeding 1 percent of the population, or the persons displaced by conflict exceed 5 percent of the population.
<i>Legitimacy</i>	State (or <i>states</i> ) seen as a main threat to, rather than guarantor of, security. One or more groups systematically subjected to violence or deliberately not provided security by the state. Often, private militias are formed, in part to protect own group.

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Figure 1: A decision tree for developing a fragile state strategy



## **Conclusions, Recommendations, and Outstanding Questions**

The conclusions and recommendations below have been derived from an application of the framework presented above.

### **Conclusions**

1. Practitioners must recognize that failed and fragile states come in many flavors (syndromes). Culture matters. Donors must recognize that a one-size-policy response does not fit all.
2. The fundamental source of any state's resilience or fragility is the quality of its underlying institutions and comprises four elements or dimensions: political, economic, social, and security. Each has its own characteristics.
3. The capacity of these elements and the allocation of responsibilities for them between the local and central governments are critical concerns in state building. The strengthening of local and central governments may require a sequential approach. It is possible to consolidate a weak central government whose action is circumscribed by stronger sub-national governments as the latter cede powers to the center once trust and centralized efficiencies are achieved.
4. Societies are organic systems. Changing any component will provoke responses in the other components. This suggests that piecemeal responses will fail.
5. "Do no harm" must be the fundamental precept of interventions. This is not a low bar. Outsiders lack knowledge of local socio-political relationships. Huge inflows of foreign exchange can exacerbate corruption. Donor demand for skilled local personnel may distort local labor markets and may crowd out supply that might otherwise be channeled to the local public and private sectors.
6. Before taking any initiative, it is imperative to have a consistent baseline of what is happening. The framework proposed above offers a starting point.

### **Recommendations**

1. Practitioners wishing to influence the outcome of strategically difficult situations (a "game") must accept that they generally are outsiders acting without complete information. They must focus on process, which can be agreed upon in the initial phase of an intervention, rather than end states, over which they may have little control. Donors are uncomfortable with this lack of control, however.
2. A central conclusion of the framework above is that basic security is the critical precursor of any effort to reverse a failing or failed state. But few if any donors have much expertise in the provision of civilian police force services or training of existing forces. Donors must develop that capacity or risk failure.

3. Over the medium term, a post-conflict regime has high potential to fail again. Trust may be hard to establish between the signatories of a truce, especially if one of the parties attempts to press its agenda too hard. A particularly delicate point occurs when the first major post-conflict elections are held, typically four to six years after hostilities have ended. This suggests an important role that donors can play: one of ensuring that their commitment over time will be consistent with the needs of the country affected by conflict. A post-conflict regime's success requires that the relevant players believe that its efforts will succeed. When they do, it generally succeeds; when they do not, failure becomes a self-fulfilling prophecy. Donor commitment to the needs of the new regime through several elections supports the legitimacy of the new order and serves to adjust mutual expectations toward success.
4. Donors should look beyond the mere design of a portfolio of measures. Each proposed intervention should be tested for stakeholder acceptability. Pilot programs can help, as well as survey and experimental gaming tools developed for this purpose.<sup>8</sup> To lead the way, donors must also be a source of innovation. This requires that they learn from their interventions. Just as testing is important, so too is evaluation—and, ideally, during implementation. While there is scope for quantitative measurement (e.g., number of trained judges, reduction in fatalities due to factional violence), qualitative tools similar to the ones mentioned above are appropriate as well.
5. Owing to its enormous demands ranging from humanitarian emergencies to infrastructure repair, the post-conflict situation and the temporary nature of external intervention conspire to favor short- rather than long-term thinking. This is dangerous, for it increases the likelihood that failure will reoccur.
6. While most state failure is accompanied by violent conflict, this is not always so. Examples include the developments in most of the republics of the former Soviet Union, all of Eastern Europe—and more recently Georgia, Madagascar, and Haiti. The framework above explains—even predicts—these two different paths by its description of the nature of the constitutional order and its legitimacy and, to a lesser degree, of the level of economic conditions, which relates to the degree of state effectiveness.
7. When donors are keen to provide aid, particularly on a broad basis, they have little bargaining power. That is why conditionality often fails. How much commitment from a country can one expect?

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<sup>8</sup> O. Azfar and C. Zinnes (2003), "The Use of Experimental Methods in the Identification, Design and Testing of Institutional Reforms: an Application to SME Access to Financing, Marketing, and Technology in The Philippines", USAID: Washington, DC, Task Order 7, SEGIR/LIR PCE-I-00-97-00042-00, February. O. Azfar and C. Zinnes (2005), "Which incentives work? An experimental analysis of incentives for trainers", USAID: Washington, DC, Task Order 7, SEGIR/LIR PCE-I-00-97-00042-00.

8. The conventional wisdom—aid to well run states works, aid to poorly run states does not—rests on a fragile foundation. The Millennium Challenge Account may be built on a false premise. The effect of relative size and scope must be taken account of. Ten million dollars spent in establishing a power sharing arrangement in a small state like Liberia probably does more good than spending the same amount in Egypt.
9. Donors need to do strategic triage; *i.e.*, to strike the right balance between the best and the good. They must distinguish between what needs to be done in a situation (if everything necessary could be done) and the opportunities in it for effective intervention (not necessarily what is most needed, but what is possible). A good program must be flexible to take advantage of opportunities as they arise.
10. A balance must be struck between building institutions—both their effectiveness and their legitimacy—and developing minds.

### **Remaining Questions**

The framework described above raises a number of issues that require further examination:

*What is the right balance between central vs. local assistance?* Fragile states and especially failed states are open to challenges not faced by more robust states; e.g., secession, accession and agglomeration. In such environments, federal solutions should be of particular interest. Donors can assist sub-national governmental units (“mini-states”) to exist while maintaining *de minimis* central governments and after a time allow the former to opt into a federal system according to a pre-agreed process. Major donors tend to favor centralization, however. They are set up to channel funds through central governments, and it is easier for them to deal with them. The danger here is that this process can weaken the legitimacy of provincial and local governments. It is not clear that this approach is good for failed and fragile states. Inter-jurisdictional competition can create a race to the top as a way to strengthen sub-national governmental units.<sup>9</sup>

More generally, when is it better not to support a regime? When is it better to deal with the sovereign—and when not? Do we need to wait for chaos or to precipitate a crisis? When should international donors intervene? Military or financial aid to an unjust regime may help to keep up its effectiveness and prolong it in power, but it may also undermine its legitimacy and thus do nothing to ameliorate the situation in the failed or failing state. Providing education or medical help to a country’s population through nongovernmental organizations that circumvent a government may help the local

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<sup>9</sup> Vice President Biden made such a proposal for Iraq in 2007. Federalism might also be appropriate in Afghanistan. For the details of how such an approach works, see Zinnes (2009, forthcoming), *Tournament Approaches to Public Policy in Developing Countries*, Washington, DC: Brookings Institution.



populace, but such aid may also undercut perceptions of the effectiveness or justice of the government, thereby increasing the risks of state collapse.

*When is the cure worse than the disease?* Creating a flow of free resources (through oil or other large capital investment projects or flows of external aid) may simply provide an opportunity for corruption or for conflict among elite factions over access to or exclusion from those resources. Such a resource flow can undermine an equilibrium based on prior perceptions of state fairness and effectiveness. External intervention is most likely to avert collapse when regimes retain medium or high legitimacy, but have low effectiveness. If likely success is the criterion for intervention, the highest priority should be assisting such regimes. In such cases, aiding the government in the delivery of services, or in the provision of economic or physical security, is likely to help restore stability to the nation. The use of third-party military forces to provide security to the parties to a conflict may be necessary to create a climate of effective governance in which the parties can work toward an agreement to restore institutions considered effective and legitimate.

*Is donor reorganization part of the solution?* Foreign governmental donor agencies are organizations with a multiplicity of objectives (mostly domestic) that use development assistance as a foreign policy tool to fulfill them. Should these agencies transform themselves into advocates for economic development, which is probably the more appropriate orientation for dealing with the tasks associated with strengthening the constitutional order? If that were the case, such donor agencies might begin to voice their opinions on the pernicious effects on the assisted countries of other donor policies of their own governments (e.g., agricultural subsidies).

More generally, given the PESS dimensions of fragility, can we expect a single donor agency to embody all the requisite skills and experience to deal with the complexity of the problem? The United States has an interagency framework within which it considers aid, among other issues. Should there be a United Nations agency through which national governments might focus their efforts? Should country-specific development funds be established, funded by donor countries, and keyed to a single mutually agreed development plan administered by professionals practicing international competitive procurement?<sup>10</sup>

Donors should allocate a greater share of their resources to experimentation. The current institutional arrangements within donor states do not support such initiatives. There are powerful incentives related to shareholder accountability to be conservative. There is a tension between ensuring donor control and generating recipient ownership. Given the institutional obstacles within donor agencies, can we restructure donor incentives?

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<sup>10</sup> Easterly in several articles has proposed variations of this approach. Also see Collier (2003), "Making Aid Smart", USAID: Washington, DC, Task Order 7, SEGIR/LIR PCE-I-00-97-00042-00.

Given that failed states need immediate and often humanitarian support, donors are understandably preoccupied with the short run. However, parallel efforts to address the longer perspective are also required. Such efforts need to focus on *processes* as well as *outputs* or *outcomes*. Unfortunately, donors are project-oriented, and putting into place the processes in which the final outcomes are not set in advance is not a *modus operandi* with which the donors are familiar or comfortable.

*Analytic responses.* This paper is predicated on the need for analysis to precede the planning of successful interventions. Practitioners need to develop well articulated analytic narratives to give greater meaning to the typologies mentioned in this paper. With these at hand, donors can then dispatch teams of experts to countries emerging from conflict to quickly tailor the relevant fragility syndrome to the specific institutional and economic conditions of the countries concerned. Using these analytic inputs, the donor community can then assess the appropriateness of pilot testing and evaluation.

Experimentation is necessary and so is evaluation. Without it, experimentation is risky. However, the incentive to experiment is greatly diminished if the chances of success are uncertain. With rigorous evaluation, ambiguous outcomes or even outright failure of initiatives are of much value because they presumably had been based on the best analysis and expert opinion available at the time of program design. Rigorous evaluation requires that planning for it be built into and guide intervention designs and that anticipated outcomes be quantitatively established.<sup>11</sup>

While practitioners should heed the call to make better use of the analytical tools available, they should adopt great humility—our ignorance is vast regarding ways to effect stabilization and economic growth in conflict affected societies. This might make it easier for them to focus their efforts on groups that are prepared to agree on legitimate and feasible *processes* of change rather than to fixate on the unlikely *contingent* ends of change themselves.

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<sup>11</sup> Again, see *op. cit.* Zinnes (2009, forthcoming) for details. Even perceptions can be quantitatively assessed using field surveys with state-of-the art elicitation (Alevy and Zinnes 2005, *The Size and Characteristics of the Shadow Economy in Mongolia*, Ulaanbaatar, Mongolia: Soros Open Society Institute.)

## Panel Four: The Challenge of Illegal and Illicit Economies

Getting the macro- and micro-economic elements right to reactivate economic growth in conflict affected countries is never easy, especially when illegal drugs, human trafficking, and other activity including illicit or illegal trade, account for much of the gross national product. How can we curb such activities without jeopardizing the economic well-being of small and medium enterprises operating on the margins of the licit and illicit economies and which, if properly oriented, could become substantial players in a wealth-creating society? Have we done this well anywhere? If we have, where and how? If not, why and how can we do better?

Dr. William Byrd, an advisor in the Poverty Reduction and Economic Management Unit of the South Asia Region of the World Bank, led the discussion on these topics. The first panelist, Dr. Keith Crane, a senior economist at RAND, talked about *Policies to Reduce Lawlessness and Corruption*. Dr. Arthur Westneat, a senior associate at Booz Allen Hamilton, showed how to document economic activity, by sharing his experience in *Capturing the Informal Sector: Evidence from Bangui*.

### Presentations

Dr. Byrd led the discussion by noting he has been working seven years on Afghanistan. The problem of reactivating economic growth in such a country is complex. One of the ways to address the issue is to think about the lessons learned from our experiences with the informal sector. That will help because the informal structure cannot be permanently repressed. It can easily morph and through its interstices, corruption and other illegal and illicit activities, like corruption, can provoke disastrous effects through the rest of the economy. What are the entry points to tackling these problems? He suggested answers might be found through a discussion of three topics:

1. The informal sector—how does it drive economic growth?
2. Illicit and illegal activities and their relationship to the informal sector.
3. Corruption and ways to address it.

Dr. Crane began the presentations by noting that illicit and illegal economies are informal by nature. He said he would focus on their illicit aspects. How do illicit economic activities affect stability and what policies have we to deal with them?

He cited two RAND documents: one on nation-building, in which he and his associates examined two dozen case studies<sup>1</sup>, which has already been published, and the other on supporting economic development in stability operations<sup>2</sup>, which will soon be published. The second study is based on numerous interviews.

A problem of conflict affected countries is that violent conflict makes countries poor. Their people subsequently often depend on the subsistence economy for survival. Reviving local activity is key to improving their lot, and key to revival is physical security. It is hard to sustain employment above the subsistence level during violent conflict, even if people are willing to work hard.

Crime is one form of employment that thrives in such an environment. Persons committing assassination, kidnapping, extortion, robbery, and narcotics and human trafficking operate through well developed networks. The way to plug them is with rapid economic growth. The illegal production and sale of narcotics substances is a “productive” activity, for example, but the findings of the studies mentioned above show that the rest of the economy grows faster than does the narcotics trade when conflict declines.

Corruption is simply the use of public office for private gain. There is grand corruption and petty corruption.

Three words sum up the way to deal with illicit or illegal activity: security, security, security. Security is the *sine qua non* for economic growth. This explains why external funding for security in Afghanistan accounted for forty percent of its gross domestic product in 2005. Police accountability, courts, and correctional institutions are important components of security.

The findings of the reports mentioned above show that a good way to foster stability is by having “cops on the beat”. Donors are not doing enough to embed foreign advisors in the police forces. Advisors need to mentor police personnel and to teach them accountability. Policemen need decent salaries. Higher salaries reduce the incentive for bribes. Paying police personnel right rather than merely firing those taking bribes—they too need jobs—can foster stability in unexpected ways.

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<sup>1</sup> *The RAND History of Nation-Building* by James Dobbins, Keith Crane, Seth G. Jones, Andrew Rathmell, Brett Steele, Richard Teltschik, John G. McGinn, Rollie Lal, Rachel M. Swanger, and Anga R. Timilsina (RAND Corporation, Santa Monica, CA 90407, 2005)

<sup>2</sup> *Guidebook for Providing Economic Assistance at the Tactical Level During Stability Operations* by Keith Crane, Olga Oliker, Nora Bensahel, Derek Eaton, Jamie Gayton, Michelle Parker, Jerry Sollinger, Brooke Stearns, and Kayla Williams (RAND Corporation, Santa Monica, CA 90407, July 2008 draft)

Dr. Crane echoed an earlier remark that societies tend to resolve contentious issues mostly through informal means. The formal system is needed for cases that cannot be resolved informally.

While persons lawfully arrested need to be punished—by putting them in prison or exacting restitution from them—people should not be arrested if there is no place to put them in. Otherwise, they will eventually be back on the street with a vengeance.

Curbing the growth of narcotic substances is very difficult. Crop substitution can be helpful, but cultivation can easily shift elsewhere. For interdiction to succeed, we need to focus on the high-level leaders involved in the trade. Since such leaders cannot be moved through the courts in conflict affected countries, such as in Afghanistan now, what is to be done with them?

Corruption in the civil service can be curbed by keeping it small. Too many people join to get into the public till. Civil service and other public sector personnel should not have easy access to cash. Government payments should be electronically transferred to reduce skimming of public funds. Public sector payroll rosters should reflect only persons actually working for the government or public agencies. Donors and central governments in countries affected by conflict must devolve responsibility to lower levels of government while enforcing accountability at all levels.

Conflict affected countries should be encouraged to adopt standard contracting and procurement procedures. Nigeria has had limited success in this regard. Transparency is essential to proper management of a country's natural resources.

Concluding, Dr. Crane restated that security is vital to stability and economic growth. The best is too often the enemy of the good. He recommended keeping things simple. Accountability is key. People in power want to retain their positions. We can demand transparency and accountability from them.

Dr. Westneat's presentation centered on the informal market of Bangui, Central African Republic (CAR), a country much affected by conflict in a troubled neighborhood. Chad, Sudan, the Republic of Congo and the Democratic Republic of the Congo are on its borders. The CAR sits astride a major route for illicit goods from Chad up north to the Republic of Congo. Although the UN conducted a peacekeeping operation in the CAR from 1997 to 2000, it continues to be troubled by domestic and regional instability.

Dr. Westneat and colleagues went to the CAR in the early nineties to examine the social context of the markets in Bangui, the country's capital. The largest market in Bangui was at KM 5 (five kilometers from the city center). Their task was to map the informal structure. Since the output of the country's informal sector accounted for 60 to 80

percent of the aggregate economy, he asked whether that contribution made the informal sector the real economy.

Dr. Westneat and associates surveyed the markets around Bangui, including the links to agriculture up country. They did a cross-river study involving the Democratic Republic of Congo. They interviewed merchants and asked where they typically bought their goods. Since almost all the merchants could not access commercial credit, they obtained much of their funding from loan sharks or from *tontines*, members of particular groups who informally allocated credit among themselves. Most of the merchants were Muslims, trusted one another, and were members of a tightly-knit community.

Dr. Westneat noted that informal sector markets of conflict affected countries often are characterized by a wide set of activities that go beyond the marketing of contraband products—cross-border transport, road-side bribes, sabotage, rent-seeking, petty thievery, avoidance of taxes, etc. These illegal or illicit activities in Bangui posed a lesser threat to the security of the state than did fragile inter-communal relations. Familiarity with their dynamics is indispensable to the analysis of the social, political, and economic tensions that lead to conflict. The analyses that explain these tensions can inform the geographical combatant commander and soft-power strategists of areas where appropriate stability operations can assist host governments in efforts to maintain social and political order.

### **Plenary Discussion**

Dr. Byrd asserted that it is not at all clear that economic growth curbs insecurity. He said we have cracked down many times on the drug traffic in Afghanistan and economic growth has occurred in the country, yet this has not reduced insecurity.

Mr. Soroko asked how do we know that stability helps development. In the waning days of the Bath regime, Iraq was fairly stable, but it experienced no economic growth. Shortly after Saddam fell, the number of vehicles in Baghdad quadrupled. Air conditioners piled in. A lot of electric power was provided by small entrepreneurs. Yet insecurity was such that donor agencies could not have done a Bangui-like study of the markets in Baghdad.

Dr. Crane replied that every economy in conflict has cracked. This was the case in Iraq though insurgency was not everywhere.

Dr. Westneat clarified that the Central African Republic was a country in pre-conflict. At this stage, he and his associates knew what to look for and had little trouble conducting their research.

Professor Zinnes asked what the Bangui market study says about fragility. The markets were informal in part because the merchants didn't pay taxes. What regulatory system was needed, if any?

Dr. Westneat answered that the civilian government in Bangui tried to organize the markets, but many could not be regulated. Many of the vendors had come from Chad and were outsiders. The vendors with stalls could be taxed, but they complained they were not receiving benefits for taxes paid. The situation was fragile and blew up in November 1994. A good part of the KM 5 market was burned down by rioters in response to the killing of three Central African nationals by a Chadian exile.

Dr. Crane said we want to stabilize Afghanistan for our troops to come home. What works? What's wrong (e.g., warlords going into drugs)? Accountability is a big problem.

Dr. Byrd replied there is no real civil service. All Afghan officials are political.

Professor Zinnes responded: "Can't we reward good performance?"

Dr. Crane said performance pay may work since the less money Afghan officials have, the less power they hold and the less likely are they to meet societal expectations.

Dr. Byrd concluded the panel discussion saying this is why firing a public official is a real punishment in Afghanistan.

# Policies to Reduce Lawlessness and Corruption

by

Dr. Keith Crane, The RAND Corporation

and

Joseph P. Gregoire

Professor, Economic Development

Peacekeeping and Stability Operations Institute

This paper, *Policies to Reduce Lawlessness and Corruption*, describes how reduction in corruption, violence, and lawlessness can promote stabilization and economic growth in conflict affected countries. We hope the paper will raise awareness of readers to the need to:

- Identify major impediments to stability due to lawlessness and corruption,
- Lay out potential policies for dealing with these problems, and
- Discuss the likely effectiveness of these policies.

The way this is done largely determines whether practitioners will stabilize security and reactivate economic growth in such countries.

Much of what is below was drawn from two RAND publications: *The Beginner's Guide to Nation-Building*<sup>1</sup> and the *Guidebook for Providing Economic Assistance at the Tactical Level During Stability Operations*<sup>2</sup>. The Guide synthesizes the findings of two dozen case studies of post-conflict nation-building operations, lessons we should internalize. The Guidebook, whose dedicated audience should be practitioners, reflects current doctrine; interviews with officers, enlisted personnel, and civilians engaged in Afghanistan, Iraq, and the Balkans; reports from the Center for Army Lessons Learned; economic and political theory and analysis; and the experience of RAND's team of experts in stability operations.

Is there a compelling reason for civil and military personnel engaged in stability operations to be concerned about post-conflict economies? There is and the reason is simple: conflicts make people poor. In such environments, economic activity drops to subsistence levels often rather quickly. Violence catalyzes the development of criminal networks and activities like kidnapping, extortion, robbery, and trafficking in drugs and human beings. The climate of lawlessness and violence nurtures various forms of

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<sup>1</sup> *The Beginner's Guide to Nation-Building* by James Dobbins, Seth G. Jones, Keith Crane, and Beth Cole DeGrasse (RAND Corporation, Santa Monica, CA 90407, 2007)

<sup>2</sup> *Ibid.*



corruption, whether nepotism, feather-bedding, and the inclusion on payrolls of fictitious or ghost employees; contracting fraud; policy favoritism; and petty corruption.

Post-conflict economies always differ from peace-time developed economies. While the economic activity of conflict affected countries always reflects the unique make-up of their respective societies, such countries all share a characteristic: few people hold jobs yielding regular paychecks. They are self employed or work as day laborers. Their inhabitants are overwhelmingly employed in agriculture, trade, transport, and government, the dominant sectors in these countries. Because of poor security, corruption, crime, and other illegal pursuits are often prevalent. Criminality and corruption become the endemic twin plagues of post-conflict societies.

The solutions to both can be summed in a word, if not a mantra: security, security, security. In the post-conflict phase of stability operations, criminality and corruption can be checked through police accountability, functioning courts, and culturally-sensitive sanctions. Police accountability can be promoted by vetting new recruits, embedding foreign advisors within police units, paying competitive salaries, removing corrupt or incompetent police personnel on the basis of fair and transparent procedures, training recruits and mid-level personnel, and engaging in constabulary or community policing. The courts will function effectively if they reflect the laws and mores embedded in the fabric of the local society, if the procedures to adjudicate disputes are streamlined, and if procedures to dismiss corrupt judges quickly and fairly can be implemented. Culturally-sensitive alternatives to imprisonment, such as socially sanctioned restitution of illicit gains, as well as prisons that are clean and whose staff are not abusive, help reduce criminality and thus improve security, without which neither stabilization nor economic growth will take hold in post-conflict countries.

In such countries, the illegal financing, production, and distribution of substances like drugs often poses major impediments to reactivation of economic activity. Curtailing the cultivation of coca, poppies, or cannabis in countries affected by conflict is difficult. In the originating countries, cultivation easily shifts locales but rarely disappears in response to efforts to eradicate these crops. Crop substitution can help, but its effectiveness is sometimes oversold. While interdicting the distribution of narcotics by targeting high level dealers antagonizes the producing countries' populace much less than simply eradicating the crops of poor cultivators, the effectiveness of interdiction programs in the conflict affected countries has not been remarkable because the efforts to reduce the demand for narcotics in the foreign consumer countries, including the United States, have had mixed success. Conversely, while the dismissal from positions of power or the sidelining of key people aiding or abetting the trade in conflict affected countries may appear to be a mild measure, it is often more effective than prosecutions because of the deficiencies in their legal systems and because of the extensive socio-economic network of interdependencies.

Reducing corruption in the civil service will facilitate stabilization and economic growth in conflict affected countries. Keeping the civil service small is the way to do this: idle hands have time for mischief. Government corruption can be curbed by ensuring that the civil service comprises the right number of people based on the best practices of countries that have made the transition from post-conflict to stability, by creating a civil service roster of the persons actually employed in the public sector, and by disbursing public sector salaries and other payments through electronic payments systems to avoid payments to ghost employees and payroll skimming. With the advent of cell phone and other modern communications technologies, these systems are much easier to set up than in the past.

Devolving responsibility and enforcing accountability also helps. Devolution of responsibility helps since it makes it possible for officials at lower levels to gain management experience through project activity and to affect policies at higher levels. While the officials and other employees at all levels who perform well should be eligible for promotion, those who are corrupt or incompetent should be dismissed rapidly on the basis of transparent procedures that enforce accountability at all levels.

Evidence shows that stabilization and economic growth are influenced by the contracting and procurement practices in post-conflict countries. The officials responsible for such activities should follow World Bank guidelines for large and small contracts—or should establish similar procedures. The authorities should include the costs of public sector projects in the national budget, as well as publicly announce all tenders through the print media and the internet. Committees of citizens free of conflicts of interest or the appearance thereof should review the bids. The committees should publicly reveal all bids and announce contract awards. Lastly, the authorities should entrust the conduct of performance audits to experienced, impartial third parties to determine whether payments to contractors are justified.

Another activity that significantly influences stabilization and economic growth is the management of natural resources in countries affected by conflict. Natural resources like oil and diamonds are sources of funds that the local powers fight hard to control. To prevent deadly competition, the legitimate authorities in these countries must see to it that securing the resource transport routes are a high priority, that resource sales contracts are publicly accessible, that the proceeds from the resources are deposited in specially designated audited accounts, and that the expenditures from these accounts are publicized widely so that citizens know how they were reportedly spent.

In conclusion, key precepts include:

- The economy cannot thrive without security.
- The perfect can be the enemy of the good.

- Accountability is key.
- Position is power so termination is a more powerful instrument than prosecution.
- Simplicity is essential since conflict affected countries often lack qualified personnel to run complex systems, and corruption thrives on complicated systems.
- Transparency is a great disinfectant.

Were these precepts regularly invoked and acted upon, stabilization and economic growth in conflict affected countries could more easily be assured.

DRAFT

# **Capture of the Informal Sector: Evidence from Bangui**

by

Arthur S. Westneat, PhD.

Booz Allen Hamilton

## **Introduction**

As I get older my life seems to resolve around axioms or proverbs, such as “Early to bed, early to rise.” In Africa, proverbs are part of the rich cultural context. One of my favorites is: “Don’t spit straight up in the air while lying on your back.”

I introduce our topic with a proverb that has political economic overtones: “Never say ‘no’ to the person who feeds you.” It speaks to the importance of access to a diverse food supply and, in the case of Bangui, of communal tensions resulting from the dominance of a single market.

I also want to emphasize the obvious—the importance of conducting detailed pre-conflict studies to identify tensions in a society. With such knowledge, stability operations may serve to deter more violent conflict later.

Bangui is a major trading city on an international trading corridor extending through the heart of Africa from Sudan and Middle Eastern markets, via Chad, to the Republic of Congo, Gabon, Cameroon, and to the Atlantic Ocean.

The CAR is in the center of a rough neighborhood. To the north is Chad. The northern populations of the CAR are related to Chadians, and arms and violence from Chad’s civil wars flow freely into the region. To the south is the Democratic Republic of Congo, separated by the Ubangi River. The people of both sides of the river are related and the problems of Congo flow across to the CAR. To the northeast is Sudan, and Darfur refugees find their way into CAR.

The CAR has its own internal divisions, characterized simply as north versus south, and was the focus of a successful UN peacekeeping operation: the United Nations Mission in the Central African Republic (MINURCA) 1997-2000. It was successful in the sense that the peace keeping mission achieved its objectives and the peacekeepers were able to leave in a timely fashion. After MINURCA left, events in the CAR were instructive of the complexities of peace maintenance in this part of Africa.

The illegal and the illicit layers of the Bangui markets are parts of the informal sector and include a wide set of activities beyond the marketing of contraband products. The

Bangui Market Study<sup>1</sup> (BMS) found that illegality cut a wide swath across market activities: cross-border transport, road-side bribes, sabotage, rent-seeking, petty thievery, avoidance of taxes, etc.

Below I focus on the “capture of the informal sector” to answer the question: How does the legitimate government work with the largest part of the private sector?

### **The Bangui Market Study**

Funded by USAID and implemented by Africare in collaboration with the U.S. Department of State, the BMS had a broad mandate. Besides addressing issues of the food-crop marketing in the capital city, it permitted the conduct of peri-urban studies of the agriculture sector around Bangui linked to a full-scale agricultural sector study of the Bossangoa region some four hours by road north-west.

Short, quick turnaround studies covered a variety of topics that included a literature review; a consumer survey; two price and quantity market surveys (10-months apart); a study of credit services, attitudes of market vendors, urban transport, and municipal market services; a study of wholesalers; and one addressing questions of weights and measures. The BMS also looked at pricing and tax policy issues affecting the food-crop market, cross-river trade, and control of entry points to the city.

The work was conducted by three economists (Westneat, Boyer, Lentz) assisted by five survey workers. Additional survey workers were employed for the peri-urban agricultural sector study. The BMS would not have been possible without the full cooperation of the Bangui municipal government which, through an advisory board, guided the work of the BMS in the markets. The municipal government hoped to attract internationally funded services to the commercial sector.

The BMS is a pre-conflict study conducted in the 1989-1990 period. The importance of this kind of study is its ability to identify areas of socio-political-economic tension before violence erupts. When sensitive to these tensions, stability operations can be used to mitigate them in a pre-conflict environment to promote U.S. interests in on-going dynamic, sustainable development.

### **The Bangui Markets**

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<sup>1</sup> The Bangui Market Study – Final Report (Draft), Arthur S. Westneat, Neil A. Boyer, Benjamin E. Lentz. (Rural Enterprise Development Project, Africare, Washington, February 15, 1991)

The term "Bangui market" is an abstraction that has a geographical connotation and encompasses all aggregate exchange activities within the markets surveyed. The plural term "Bangui markets," on the other hand, is more specific and reflects the multiple marketing venues that actually exist. The primary markets in Bangui are those regulated by the municipal government.

How many markets were there in Bangui at the time of our study? Determining this was not as easy as it might seem at first. The Bangui mayor's office collected taxes from 22 primary markets in Bangui, while the office of the mayor of Bimbo (a contiguous municipality) collected from four additional primary markets. Twenty-six markets is the quick answer to the question above.

Bangui's Primary Food Markets	
Central	Boy Rabe
Ouango	Foûh
Kassai	Gobongo
Lakouanga	Ngbenguéwé
Sica 1	Miskine
Sica 2	Moustapha

The number of official markets is not the entire story. There were 11 new or semi-permanent markets—four supermarkets and seven river-port markets, one of which was a primary market—and two more were recently defunct. Plus, there were three important specialty markets, numerous spontaneous markets, and countless door-to-door peddlers and home-based sellers. To complicate matters, different groups of sellers used the same market place at different times during the same day, adding to the potential number of identifiable markets.



Another problem enumerating the number of markets in Bangui was the fact that five of them (Kokoro, Mamadou M'Baïki, Sambo, Ngawi, and Soudanais) were commonly identified collectively as one single marketplace called Kilomètre Cinq (KM 5), named for its location five kilometers from downtown Bangui. The five markets were roughly contiguous and formed the largest shopping area in Bangui.

New, Recently Defunct, and Semi-Permanent Markets	
<b>Langbassi (Defunct)</b>	<b>Kpéténé (New)</b>
<b>Magalé (New)</b>	<b>St. Jacques (New)</b>
<b>Sinistré (New)</b>	<b>Tekpa (New)</b>
<b>Yassimandji (New)</b>	<b>Centre-Ville: Semi-permanent</b>
<b>Sans Cas (Defunct)</b>	
<b>BAMAG, Dias Frères, PTT Kpéténé II (New)</b>	
<b>Source: BMS</b>	

## **Defining the Informal Sector**

The definition of the informal sector is a perennial issue. For the BMS, we used the definition of the International Labor Organization of the United Nations. In addition, we adopted the simpler definition of the local *Direction des Statistiques et des Etudes Economiques (DSEE)* of the *Ministère des Finances* where informality was defined as the lack of a formal accounting system.

Typically, many products are part of the informal sector. The Bangui informal sector was dominated by retail products.

### **Vendor Types**

Filling out the picture, the BMS reflected understanding of vendor types—the people—who engaged in market activities and retail food stuffs in Bangui. There were 11 different vendor types.

### **The Husband-Sponsored Housewife**

**Vendor:** This intermittent vendor was typically a housewife who sold goods in the market to achieve domestic objectives. She received a periodic allowance, often monthly, from her husband, to buy agricultural products to sell at a local market.

<b>THE BANGUI INFORMAL SECTOR</b>	
<b><u>Business</u></b>	<b><u>Percentage</u></b>
<b>Agriculture, Cattle</b> <b>65</b>	<b>0.3 percent</b>
<b>Industry*</b> <b>1,166</b>	<b>6.0 percent</b>
<b>Construction, Public Works</b> <b>47</b>	<b>0.2 percent</b>
<b>Wholesale</b> <b>114</b>	<b>0.6 percent</b>
<b>Retail</b> <b>14,544</b>	<b>74.3 percent</b>
<b>Fruits, Vegetables</b>	<b>20.5 percent</b>
<b>Condiments</b>	<b>10.4 percent</b>
<b>Miscellaneous manufactures</b>	<b>17.8 percent</b>
<b>Shish kebabs</b>	<b>14.5 percent</b>
<b>Cigarettes</b>	<b>4.6 percent</b>
<b>Other</b>	<b>6.5 percent</b>
<b>Coffee Shop, Hotel, Restaurant</b> <b>3,114</b>	<b>15.9 percent</b>
<b>Transport, Services**</b> <b>520</b>	<b>2.7 percent</b>
<b>TOTAL</b> <b>19,570</b>	<b>100.0 percent</b>
* <b>Woodworkers, tailors, grinders</b>	
** <b>Repairs</b>	
<b>(Source: DSEE, 1989)</b>	

**The Credit-Sponsored Housewife Vendor:** A housewife vendor who received a given quantity of an agricultural product on credit—a credit-in-kind—and sold the produce in the market, repaid the lender of the good, and retained the difference.

**Apprentice Merchants:** They were typically young men and women who associated themselves as retail sellers with larger successful merchants.

**Small Wholesalers:** These vendors differed from large wholesalers in their financial inability to mount purchasing expeditions to the provinces.

**Large Wholesalers:** These vendors had capital at their disposal to engage in field-to-consumer commerce. They were entrepreneurs in the true sense of the word. There were relatively few of them.

**Barter Traders:** These traders were professionals highly knowledgeable about the relative value of commodities. They took manufactured goods to provincial markets that they traded for foodstuffs and local products.

**Sometime-Merchant Producers:** Farmers who sold directly in the Bangui markets.

**Wholesale Producers:** Some farmers sold in the markets as small wholesalers. They sold their own produce in large lots to other wholesalers.

**Peddlers:** Walk-around sellers who carried their produce with them in the market and door to door. They had several key advantages: customer selection, home delivery, flexible price, limited taxes, product diversity, and quick turnaround.

**Roadside Merchants:** They were vendors who positioned themselves along a main road to sell products, most often food products or other small articles like bread, coffee, and cigarettes.

**Home Sales:** Sales from home or in front of homes were common in the neighborhoods.

**Product Supply: “Where did you buy your goods?”**

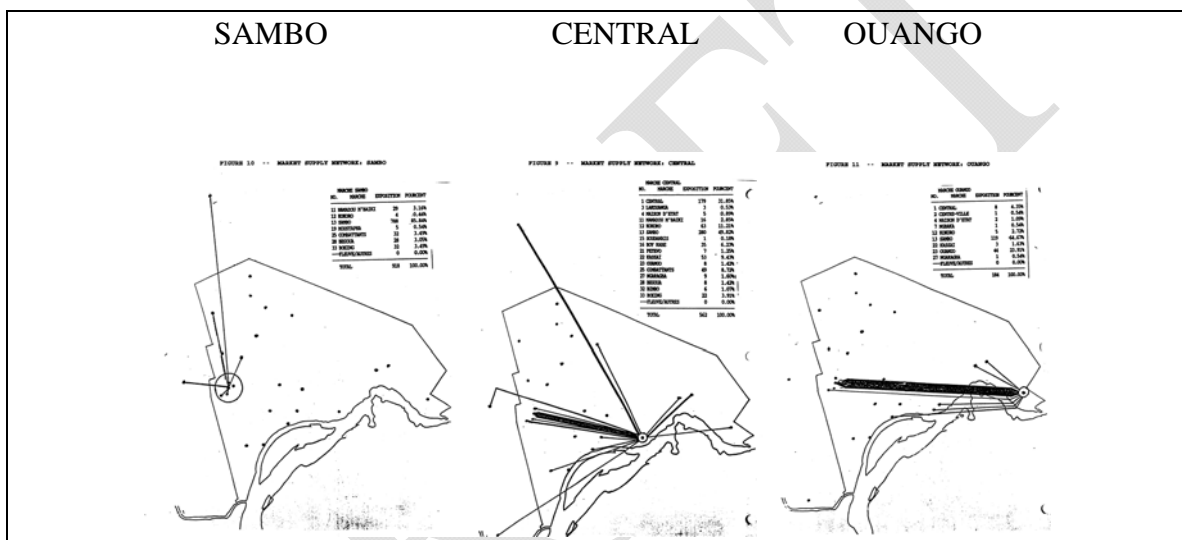
The questions we asked market vendors regarding the places of purchase and of production of food crops essentially tested levels of vendor knowledge. Not surprisingly and to a very high degree, vendors knew where they had bought the foodstuffs they were selling. Of the 12,460 product exposition points surveyed, the place of purchase of 98 percent of the foodstuffs was positively identified. By way of contrast, when it came to identifying where the produce had been grown or produced, Bangui market vendors were



less knowledgeable. Only about 23 percent of the respondents knew where the food crop had been produced.

One of the most surprising results of the study of food-crop vendors came in response to the question, "Where did you buy your goods?"

While a certain, hard-to-define percentage came from abroad, a huge percentage came from the market complex at KM 5 and especially from the single Sambo market. KM 5 was the most important informal sector trading center in Bangui and, in terms of market penetration, the commercial activities centered here dominated the Bangui commercial horizon. Its dynamism far exceeded that of the European-style formal sector, and the upstart Congo commercial network was a mere shadow when compared to it.



**Sambo (one of the five markets at KM 5 collectively known as KM 5) supplies:**

- 86 percent of the food-crop products presented in the Sambo market itself
- 50 percent of the food-crop products presented in the downtown Central Market

**Of total food-product sale points (i.e., individual vending stations), 31.1 percent of the sellers in Central Market sold products that had been bought at Sambo.**

- 65 percent of the food-crop products presented in the Ouango market came from Sambo.
- Sambo was the source of 67 percent of the products sold in 23 markets (excluding Sambo, Ngbenguéwé and Kokoro markets), each of which had a roughly equal share of these Sambo products.

KM 5 was an international commercial center. Imported into KM 5 were food and manufactured goods from Cameroon, Chad, Sudan, Nigeria and countries from around the world. Exports from KM 5 went on to markets in Gabon and Congo. While the merchants at KM 5 collectively imported many manufactured goods, they also imported produce that was highly integrated into the Central African diet: onions, peanuts, red

pepper, garlic, and to a much lesser degree millet, sorghum, and rice. They imported also vegetable oils produced in neighboring countries that competed directly with Central African factories, and provided the bulk of the raw material going into making Central African peanut oil.

### **Commercial Credit**

Credit drove the Bangui market. However, the vast majority of the informal sector entrepreneurs were not eligible for commercial credit, either because their loan requirements were too small or they did not have satisfactory collateral. The formal sector banks in Bangui were simply not in the business of financing the individual informal sector entrepreneurs. The risks were too high, the returns too low, and the potential clients not well enough established financially to convince professional bankers of the viability of proposed partnerships. During interviews with vendors, we heard or saw little evidence of formal sector credit among market vendors.

Loan sharks operated in Bangui, as in other big cities, lending money to higher-risk clients at interest rates in the vicinity of 50 percent per month. Tontines—locally organized savings clubs—were very popular in the Bangui markets.

Another way of financing the informal sector was through the management of current cash flow—regular cash payments for labor and other services with no institutional credit or savings involved. Monthly government salaries might finance a civil servant's wholesale purchase of a limited stock for resale in the market. The level of the public sector payroll therefore influenced the level of funds available to the municipal markets and was a significant determinant of informal sector activities. Our study showed that reduced cash flows coming from the public sector (*n.b.*: effects of the World Bank structural adjustment program) coincided with a decline in market sales (number of sellers and product sale points) on the order of 40 percent over the ten-month study period.

### **Informal Credit: Credit-in-Kind at KM 5**

KM 5 commercial operations were financed independently of local commercial banks. It was popularly supposed that the very substantial sums of cash required to finance KM 5 commercial operations were kept at home, entirely outside the formal banking structure. Commercial credit at KM 5 was largely built around a system of credit in kind. Here, marketable produce or manufactures were lent (not money) against a repayment in currency on terms which were negotiated at the outset. Similar credit helped finance the international trade centered at KM5.

Credit in kind was very common in Bangui and provided the liquidity that financed the importation of agricultural products as well as manufactured goods, obviating the need

for the otherwise substantial capital resources of a bank. Interpersonal confidence (trust) was a significant resource—a resource much less prevalent in the non-Moslem communities of the Central African Republic.

This informal credit system seemed most prevalent—and successful—among Moslem traders connected with the KM 5 complex. The system was built on the structure of rewards and sanctions prevailing among adherents of the Islamic faith. Reliability in business dealings and trust went hand in hand with integration in the Moslem community, where failure to respect commercial norms could be sanctioned in a variety of ways.

The system was linked to certain other productive enterprises. There was a close association between this informal network and Moslem cattle-raising activities. There was also indication that marketing of gold and diamonds was a part of the commercial operations that went into making KM 5 the major center it was.

The commercial network that supported KM 5 operations appeared to be an integrated whole, broadly supported by diverse economic activities of a productive nature, well integrated in the style and character of the region. At KM 5, the business leaders were personally integrated in the community. They had made a long-term commitment to commercial activities in the CAR. Their personal objectives included important aspects of lifestyle, religious, and governance that influenced commercial considerations.

### **Conclusion: Capture from Within**

In terms of our capture idiom, the CAR government was relatively successful at taxing and regulating the primary food markets. The merchants of KM 5 had captured the informal sector, not in terms of taxation and regulation, but in terms of product supply and credit services. Bangui was fed and the markets functioned as a result. By way of contrast, European-based commerce and credit services largely ignored the informal sector and contentedly oriented themselves toward the smaller, more expensive formal sector. The impressive commercial role of KM 5 in the Bangui food markets justifies the conclusion that the Bangui informal sector was captured from within.

Reflecting back on our introductory proverb, food vendors faced a market of relatively limited options and one largely dominated by the merchants at KM 5. As the ethnic composition table indicates, many of the vendors (49 percent) in Sambo market were foreigners—Chadians—a tip-off to potential ethnic strife. The boiling point occurred in November 1994 following clashes during which protesters angry at the killing of three Central African Republic nationals by a Chadian exile sacked shops owned by Chadians and other Moslems.

Ethnic Composition of Food Crop Vendors (percentage present in each market)					
Market	Yakoma	Baya	Mandja	Ngbaka	Banda
<b>Chadian</b>					
Central 1.89	5.58	5.86	6.97	5.87	6.54
Lakouanga 1.86	8.84	1.13	1.31	8.27	3.00
Maison d'Etat 0.32	1.92	0.19	0.00	0.80	0.82
Sica 1 0.00	0.77	0.57	0.44	0.53	0.54
Sica 2 0.63	5.19	2.46	0.65	0.80	3.81
Ngbaka 0.00	13.46	0.38	0.65	5.87	0.54
Yapélé 0.95	4.04	0.00	0.00	1.60	1.63
Abattoir 0.00	2.21	0.38	0.00	2.40	1.91
Mamadou M'Baïki	9.42	4.54	0.00	6.40	2.45

The importance of pre-conflict research lies in its ability to inform the skilled analyst of the social, political and economic tensions that can lead to conflict. In the case of the BMS, these included ethnic concentration over key economic instruments, the extended non-payment of government salaries, and declining food crop sales. The BMS and similar studies can inform the geographical combatant commander and soft-power strategists of areas where appropriate stability operations can assist the host government in their efforts to maintain social and political order.

## Stabilization and Economic Growth

November 12, 2008

### Agenda

0830-0845     **Introduction** (Frank Kramer, CAN; COL Richard Megahan, PKSOI)

0845-1015     **Panel One: Macro-Economic Sustainment of Transformation**

Practitioners of nation building know the macro-economic elements that are necessary for local and national economic recovery following substantial conflict. There is nonetheless debate among them about appropriate sequencing, as well as what policies or programs have been effective or ineffective and over what time. The panelists should address how best to bring these elements together to foster the development of small, medium, and large enterprises and the sustaining infrastructure? To facilitate discussion, the participants should pre-view USAID's *A Guide to Economic Growth in Post-Conflict Countries*, an excellent compendium of principles and lessons learned.<sup>1</sup>

Moderator: Frank Young, Abt Associates

Panelists:

Dr. Jay Smith (USAID): "A Guide to Economic Growth in Post-Conflict Countries: Basic Concepts"

1. Dr. Raymond Gilpin (USIP) : "Towards Conflict-Sensitive Macroeconomic Growth: Unraveling Challenges for Practitioners"

1030-1200     **Panel Two: Micro-Economic Sustainment of Wealth-Creating Societies**

Practitioners know that restoring a healthy micro-economic environment is crucial to nation building in the wake of substantial conflict. Nation builders need to quickly restore pre-conflict livelihoods and expand the local economy to consolidate a fragile peace. How can they best expand the economy within the first year of the end of conflict to ensure transition to a wealth-creating society? What are the long-term efficiency and short-term effectiveness trade-offs of creating jobs, extending micro-credit, or executing other quick-impact measures? How effective have these been in restoring local economies and why? What has been the impact of these measures on security and why?

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<sup>1</sup> *A Guide to Economic Growth in Post-Conflict Countries*, (Washington, DC: Economic Growth Office; Bureau for Economic Growth, Agriculture and Trade; U.S. Agency for International Development; October 4, 2007; draft for discussion)

Moderator: Phillip Steffen, USAID

Panelists:

1. David Soroko (IRD): “Community Stabilization Program: Lessons Learned”
2. Rachel Blum (CHF International): “Infrastructure Reconstruction, Market Development, and Workforce Development: Enabling Links”

1200-1230     **Lunch**

1230-1345     **Panel Three: Governance and Rule of Law Underpinnings**

Practitioners know too that context is as important as principles in determining the right mix of macro and micro elements that underpin the transition from a post-conflict to a wealth-creating society. How can we best develop the governance and rule of law institutions that need to be developed to reactivate an economy in distinct post-conflict settings? When have we done this right and how did that happen? Since development of sustaining capabilities cannot succeed on the basis of a “one size fits all” approach, how might sequencing of relevant activities affect economic transformation? How do we cope with social and cultural values that might impede such change?

Moderator: Clifford Zinnes (University of Maryland)

Panelists:

1. Lubomira Zimanova Beardsley (World Bank): "Rule of Law Reform in Afghanistan"
2. Amit Pandya (The Stimson Center): “Local and Donor Obstacles to Restoring Public Administration Capacity”

1400-1515     **Panel Four: The Challenge of Illegal and Illicit Economies**

Getting all the above right is never easy, especially when illegal drugs, human trafficking, and other illicit or illegal activity, including trade, account for much of the gross national product. When do these activities become unacceptable constraints on economic recovery? How can we best curb them without jeopardizing the economic activities of small and medium enterprises operating on the margins of the licit and illicit economies and which, if properly oriented, could become substantial players in a wealth-creating society? Have we done this well anywhere? If yes, where and how? If no, why and how can we do better?

Moderator: William Byrd (World Bank)

Panelists:

1. Keith Crane (RAND): "Systemic Changes to Limit Corruption"
2. Arthur Westneat (BAH): “Capturing the Informal Sector: Evidence from Bangui”

**Workshop on Stabilization and  
Economic Growth, 11/12/08**

**Attendees**

Beinhart, Eric Mr. DOJ

Brineman, Elana Ms. PKSOI

**Moderators/Panelists**

**CNA:**

Gaffney, Henry Dr.

Vasquez, Rob LTC Army Judge Advocate  
General's Legal